

Weekly Commentary

1 February 2010

Ready, set...

Last week's RBNZ statement took some small but significant steps in paving the way for rate hikes in coming months.

General opinion ahead of the OCR review was that nothing had changed since the December *Monetary Policy Statement*, with recent activity and inflation data panning out much in line with the RBNZ's projections. Of course that's not quite true: what's changed is that we're seven weeks closer to the anticipated starting date of the tightening cycle, and by now the timeline is getting fairly short (the RBNZ's expectation of "around the middle of 2010" implies between three and six months). The changes in the language of the statement were aimed at strengthening the message that a tightening cycle is indeed on the way.

While the data has largely met expectations, that in itself has helped to resolve some of the uncertainties that the RBNZ have noted in recent statements. In particular, they appear to have ditched their assumption that the resurgent housing market would not feed through to consumer spending to the same degree as in the past. The RBNZ noted that credit growth remains subdued, though even that may not be as reassuring as it seems: the latest figures show that housing debt grew by 3.3% in 2009, a much slower pace compared to previous years, but still likely to have outstripped income growth in that time.

The significant changes came in the last

paragraph of the statement. In December the RBNZ stated that if the recovery continues as expected, "conditions may support beginning to remove monetary stimulus around the middle of 2010". This time they noted that "we would expect to begin removing policy stimulus around the middle of 2010". No apparent change in the timing, but the new wording gives a stronger sense of the likelihood of rate hikes by mid-year.

The other major difference was one of omission. In December the RBNZ noted that "recent tightening in financial conditions, driven by a higher exchange rate, increased long-term interest rates and a wider gap between the OCR and bank funding costs, reduces the need for more immediate action" – in other words, the market has done some of the initial work for them.

That line was absent from the latest statement. At the risk of reading too much into it, this suggests to us that the leeway provided by this de facto tightening has largely run its course. That doesn't necessarily imply immediate action – if the RBNZ intended to hike at the next review, in March, they would have made that crystal-clear in the statement. Rather, it suggests that there is not a compelling case for holding off beyond that. Accordingly, we expect the tightening cycle to kick off with a 25bp hike in April.

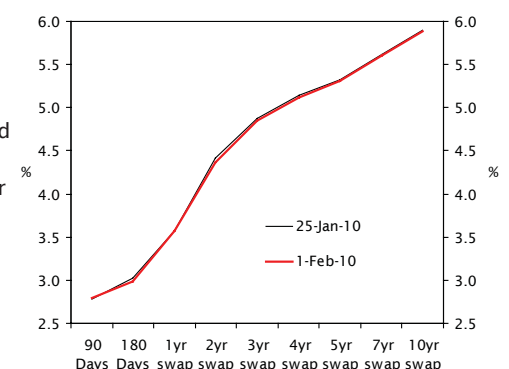
There were mixed fortunes from last week's data releases. The December

overseas trade balance was better than expected, recording a \$2m surplus. Both imports and exports are rising, mainly due to price increases for commodities such as oil and milk powder. Vehicle imports are also rising quickly, reversing some of the plunge in demand through 2008 and early 2009.

The annual trade deficit has probably now bottomed out at \$517m. The dizzying pace of dairy price increases has stalled, so export receipts are likely to stabilise. NZ consumers are likely to ramp up spending further, while recovering demand and the relatively strong exchange rate should help to revive imports of capital equipment later in the year.

The more disappointing, and potentially more significant, number was a 2.4% fall in residential building consents, following a flat month in November. Admittedly,

NZ Interest Rates



*Yield curve is yields on bank bills to 180 days, fixed interest rate swaps for 1 year onwards.

monthly consents can be volatile, and they have risen a hefty 43% since January last year, but they're still not far from the lowest levels on record going back to the 1960s. Coming at a time of strong population growth, helped by an upturn in net migration inflows, there is a growing risk of a housing shortage developing in coming years. A strong rebound in residential construction has been a key part of our growth forecasts for 2010, so we'll be watching these figures closely in coming months to gauge whether our recovery story is intact.

This week the focus is on the labour market. Indications are that New Zealand saw a small pickup in employment in the fourth quarter of 2009, for the first time in a year. Net hiring intentions turned slightly positive in the last *Quarterly Survey of Business Opinion*, consistent with a rate of employment growth close to the historic

average of 0.3%. The improvement in the Westpac-McDermott Miller employment confidence index in Q3 and Q4 is further evidence of a turnaround in the labour market from the employee's point of view.

An additional reason that we expect positive employment growth is that these figures have been predictably volatile for the past two years – probably due to changes in the seasonal pattern that have been difficult to correct for – so Q4 figures have tended to be strong, followed by a shockingly weak Q1. The labour force participation rate has followed a similar pattern.

For this reason it's better to focus on the unemployment rate as a measure of how the labour market is evolving. We are expecting a further increase from 6.5% to 6.7%, which we think will be the high-water mark following the 2008-2009 recession.

Fixed vs. floating: The growing prospect of OCR hikes in the first half of the year will eventually flow through to short-term fixed rates, which have only seen small increases to date and remain at historically low levels. As a result we could see more borrowers moving to fix at the favourable rates still on offer – and the experience of March/April last year shows that these types of flows can put a great deal of upward pressure on mortgage rates. With floating and one-year fixed rates around similar levels, there may not seem to be much advantage in fixing right now, but those who wait until they see the whites of the RBNZ's eyes before fixing are likely to face much less attractive options. Repaying more than the minimum amount and spreading the loan over a mix of terms can help to reduce overall risk regarding uncertain future interest rate changes.

Key Data Previews

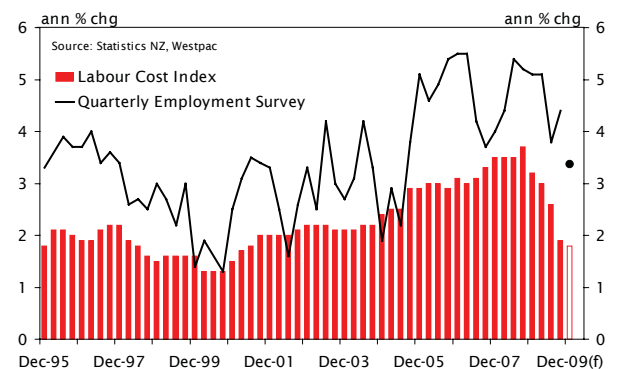
NZ Q4 wage growth

Feb 2, LCI pvt ord time – Last: 0.4%, WBC f/c: 0.5%

Feb 2, QES pvt ord time – Last: 1.7%, WBC f/c: -0.2%

- LCI wage inflation is generally strongest in the fourth quarter, when the highest number of workers get their annual pay increase. In addition, the wage-depressing effect of recession is waning. However, public sector wage growth will be weaker than last quarter, when a teachers' pay award affected the numbers. All up only slightly stronger than Q3. Annual wage growth to hit a nine-year low.
- The QES wage measure was implausibly strong at 1.7% last quarter. We expect payback in the form of a rare fall in wages for Q4. New employment has probably been mostly in low-paid industries, which will help drag down the average wage paid.

LCI and QES wages, private sector ord time



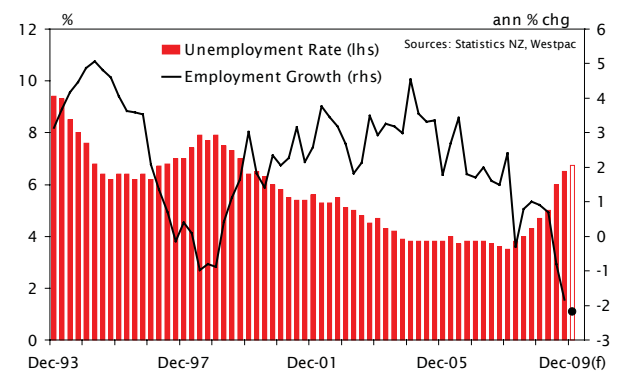
NZ Q4 HLFS employment and unemployment

Feb 4, Employment – Last: -0.8%, WBC f/c: 0.3%

Unemployment – Last: 6.5%, WBC f/c: 6.7%

- Indicators suggest employment growth of 0.3%. HLFS has become predictably volatile. December has been extraordinarily strong for the past two years. There is a strong risk of a repeat this year. However, the participation rate is likely to increase with employment.
- Unemployment is approaching its peak. Surveyed difficulty finding labour suggests only a small rise. The RBNZ is forecasting 6.6%. It would take an unemployment rate of 6.4% or below to bring a March OCR hike into the frame.
- Look for hours worked to jump strongly. The earliest production gains during recovery are typically met by increasing the hours of existing workers, rather than new hiring.

NZ employment and unemployment

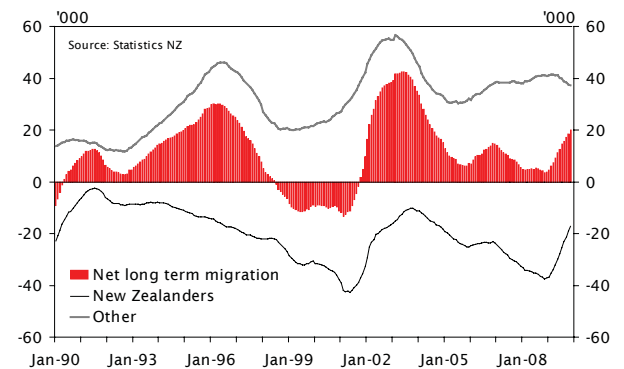


NZ Dec external migration ann.

Feb 4, Last: 20,100, WBC f/c: Last: 21,500

- Net migration has been in a holding pattern for the past few months, maintaining a moderately strong rate of inflow. A low number of New Zealanders are leaving for Australia, while a normal number of foreigners and NZers are arriving in NZ.
- We expect the pattern to continue this month, with a monthly seasonally adjusted net migration inflow around the 1,600 mark. Annual migration figures are expected to peak at 22,000 in January 2010.
- Foreigner arrivals have been unusually volatile recently, and could throw the monthly figures out. Since the annual number of foreign migrants is strictly controlled, we would not interpret a surprising number of foreign arrivals as the start of a new trend.

NZ net migration

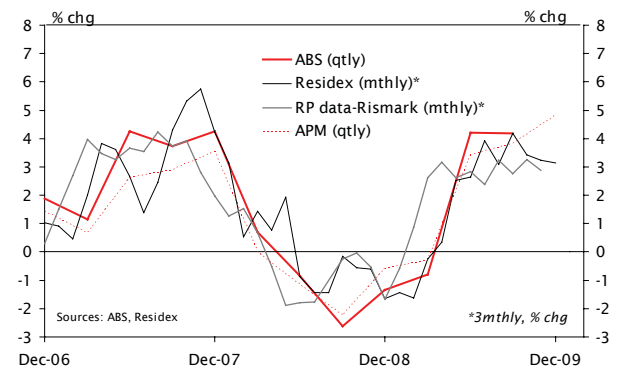


Aus Q4 house price index

Feb 1, Last: 4.2%, WBC f/c: 3.5%, Mkt f/c: 3.5%, Range: 2.1% to 5.5%

- House prices bounced back strongly in mid-2009, posting back to back gains of 4.2% in Q2 and Q3 according to the official ABS measure. All capital cities except Perth recovered the price declines seen during the financial crisis.
- We expect prices to post a 3½% rise in Q4, with upside risk to the ABS measure from compositional shifts. Slowing first home buyer demand and rate rises will see price growth moderate in 2010. However, with upgrader demand holding up well, investor interest rising, markets facing a fundamental undersupply of stock and interest rates still closer to 'neutral' than 'restrictive', house price growth should hold up reasonably well. Certainly, consumers expect that to be the case, with surveyed house price expectations from the *Westpac-Melbourne Institute Consumer Sentiment Survey* very bullish.

House prices - ABS vs private measures

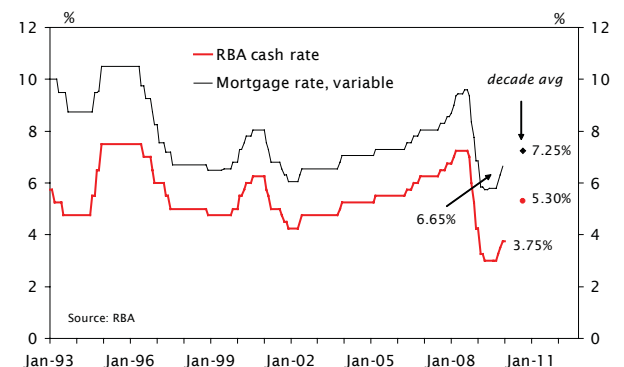


Aus RBA policy announcement

Feb 2, Last: 3.75%, WBC f/c: 4.00%, Mkt f/c: 4.00%

- The RBA is widely expected to make it four rate increases in a row, taking the cash rate from an extreme low of 3.0% at the start of October to 4.0% following the February meeting.
- The economy is rebounding strongly from the downturn and there is less spare capacity than anticipated. The unemployment rate declined to 5.5% in December. While this is well up from the historically low 4.0% at the start of 2008, it is right on the decade average.
- Accordingly, it is necessary to lessen the monetary stimulus and to do this in a timely fashion. We expect the cash rate to be at 4.5% mid-year, followed by a pause over the second half of 2010. Rates are then set to move higher in 2011.
- The RBA's Statement on Monetary Policy is out Friday, with market focus on any changes to growth and inflation forecasts.

RBA: lessening the monetary stimulus

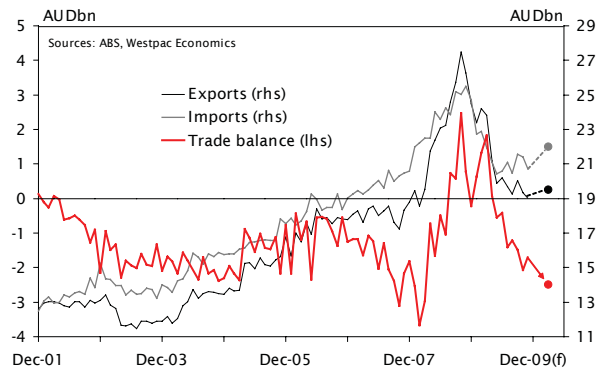


Aus Dec international trade balance, AUDbn

Feb 3, Last: -1.7, WBC f/c: -2.5, Mkt f/c: -2.4, Range: -1.0 to -3.5

- The deficit fell \$380mn in Nov to \$1.7bn. Exports fell 1.5% despite higher prices, implying a pullback in vols from recent resilience. This reinstated a downtrend for export values (-0.4%*month*, -25.3%*year*) which has been price-driven with the XPI down 32.7%*year* in Q4. Imports fell 3.1% with the AUD up 1.5% (denting prices) implying a consolidation in vols after a period of marked strength, and their uptrend continued.
- Port data implies higher non-rural export vols in Dec (iron ore) and with prices up 1.6%, but an offsetting s.adj. drag, we f/c a moderate 2.6% rise. Rural exports are expected to jump 5.9% with much higher wheat vols and a 4.1% rise in rural prices partially offset by s.adj. This gives +2.4% for total exports (tempered by services). Merchandise import data implies a 7.5% volume led surge in goods (AUD fell 2.1%) and with solid services imports, we f/c +6.1% for total imports.

Deficit up: vol-led X rebound swamped by M

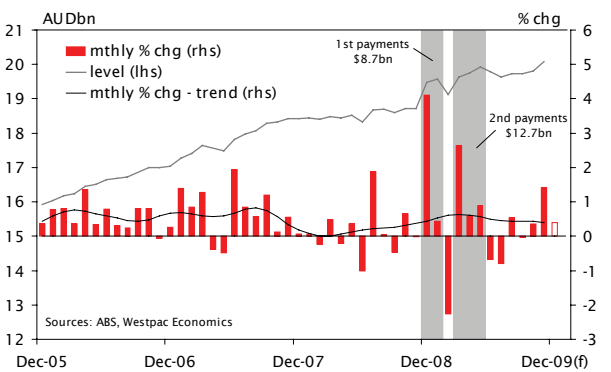


Aus Dec retail trade

Feb 4, Last: 1.4%, WBC f/c: 0.5%, Mkt f/c: 0.2%, Range: -0.5% to 1.0%

- Nov retail sales showed a marked quickening in discretionary spending. Sales rose 1.4% in the month, the strongest gain since Jul 2008 excluding the policy-driven jumps in Dec 2008 and Mar 2009. The result is particularly strong given the 0.4% gain in Oct and the backdrop of rising interest rates. The detail also shows a continued cyclical rotation towards discretionary items with a notable pick-up in spending on household goods.
- Consumer sentiment slipped in Dec following three successive rate rises. However, it remained positive overall and rebounded strongly in Jan. Meanwhile, improving job markets and the housing upturn are continuing to drive a cyclical upswing in spending. Overall we expect a solid 0.5% rise in Dec sales. Despite this, base effects from the policy-induced sales jump in Dec-08 will drag annual growth down from 7.3%*year* to 3.6%*year*.

Monthly retail sales

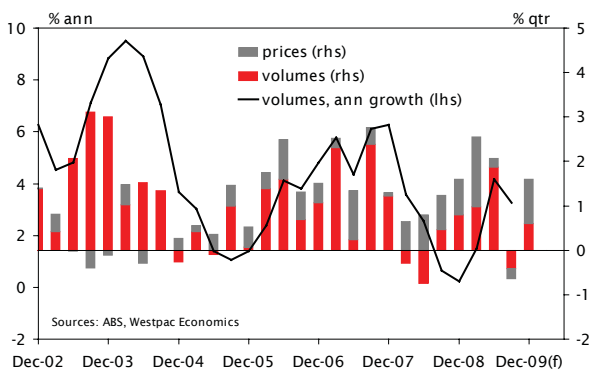


Aus Q4 real retail sales

Feb 4, Last: -0.4%, WBC f/c: 0.6%, Mkt f/c: 1.0%, Range: 0.6% to 1.9%

- Real retail sales fell 0.4% in Q3 as the boost to spending from fiscal payments to consumers dropped out of the picture (sales rose 1.9% in Q2, 1.0% in Q1 and 0.8% in 2008Q4). The \$21bn in payments since December 2008 is equal to about 40% of quarterly retail sales. While clearly a factor in Q3, sales volumes in Q4 will be largely unaffected by fiscal impacts.
- Nominal sales are expected to be up 1.6% for Q4 as a whole, a sharp turnaround on the 0.6% contraction in Q3. However, the retail components of the CPI point to a stronger price rise of about 1.0% in Q4 (vs -0.2% in Q3) with a particularly big reversal in food prices (food retail makes up 40% of total).
- Overall, this gives a 0.6% rise in Q4 retail volumes. Unlike the Dec monthly sales, annual growth rates in quarterly real sales will be largely unaffected by policy-related shifts in spending.

Retail sales: volumes and prices

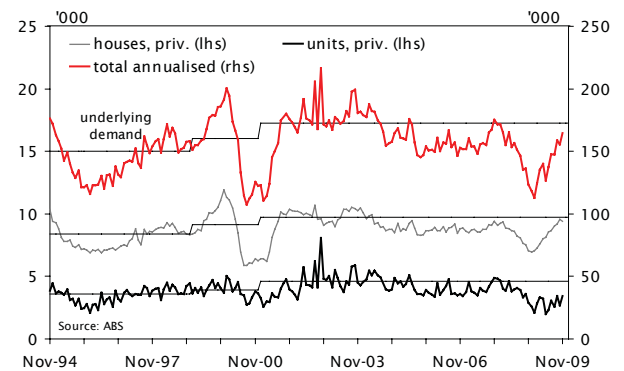


Aus Dec dwelling approvals

Feb 4, Last: 5.9%, WBC f/c: 1.0%, Mkt f/c: flat, Range: -4.9% to 6.0%

- Dwelling approvals jumped 5.9% in November as a 28% bounce in private units offset a 2% dip in private houses. There were notable upward revisions to previous months as well. Despite this, approvals continue to lag other indicators by a long way. Though strong, the 31% rise in trend dwelling approvals over the year to November is a long way shy of the 88% surge in trend owner-occupier finance approvals for construction over the same period.
- Complicating matters somewhat, finance approvals dropped away sharply late last year as the Government's first home buyer bonus phased down. However we suspect there is still a significant backlog of financed but not yet approved dwelling projects coming through. As such we are looking for dwelling approvals to hold up well in December with a further 1% rise.

Dwelling approvals



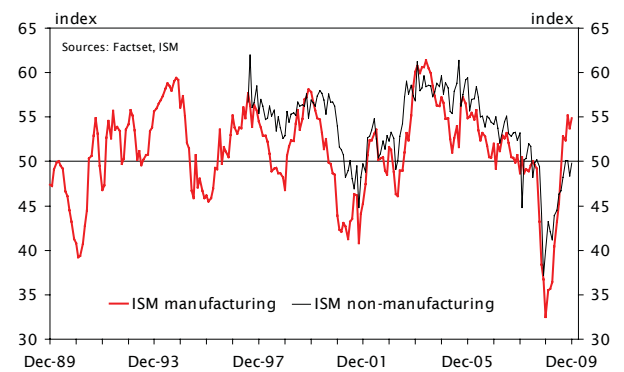
US Jan ISM factory and non-manufacturing reports

Feb 1, Factory Last: 54.9, WBC f/c: 55.5, Mkt f/c: 55.5

Feb 3, Non-manuf Last 49.8, WBC f/c: 50.5, Mkt f/c: 51.0

- Through Q4 the factory ISM hovered in a (revised) 53.7-55.2 range, which on our forecast will be associated with 4% ann'lsd GDP growth. If Q1 shows a similar GDP growth pace, the Jan ISM should hold around that range. And with many but not all of the regional Fed surveys higher (though not impressively so) in Jan, the factory ISM might just hit a new cycle high.
- Annual revisions have turned the previously insipid recovery in the ISM non-manufacturing survey to virtually non-existent: its recent high point was just 50.1 in Sep-Oct and it was sub 50 in Nov-Dec. True, this survey includes construction respondents where the data have wobbled, but the ISM headline still seems inconsistent with the current GDP growth pace so a correction higher is likely. But snow disruption and higher fuel prices will limit the rise in Jan to just 50.5.

US ISMs

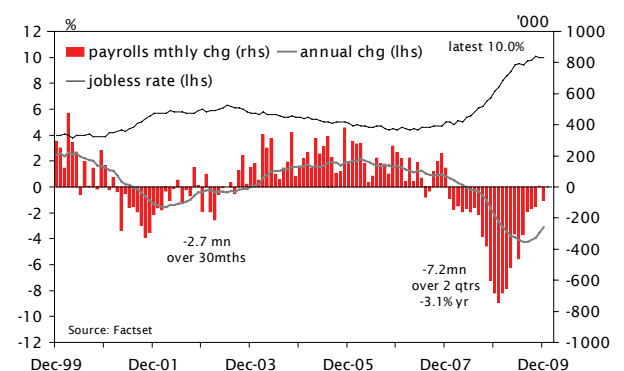


US Jan non farm payrolls

Feb 5, Payroll employment: Last: -85k, WBC f/c: -40k, Mkt f/c: 13k

- Ahead of Nov payrolls we warned of the risk "that a + sign in front of the monthly payrolls change could surprise us sooner than we think". Payrolls fell 11k in the initial report but were subsequently revised to a 4k gain - the first rise since Dec 2007. Then ahead of Dec payrolls we observed that "Nov's 11k fall was much less weak than most other indicators of the jobs market...so we expect a steeper decline in Dec". We forecast an 80k decline and the actual outcome was very close at -85k.
- Our forecast for Jan payrolls is for a further 40k fall. Small business hiring plans in Dec remained subdued; latest backlogged jobless claims data suggest a still weak new year jobs market. But annual benchmarking revisions, a huge seasonal adjustment factor (which adds 3mn jobs to the raw number!), snowy weather and a possible early start to 2010 census hiring mean the risks around Jan payrolls are even wider than usual.

US jobs market: turning, but slowly



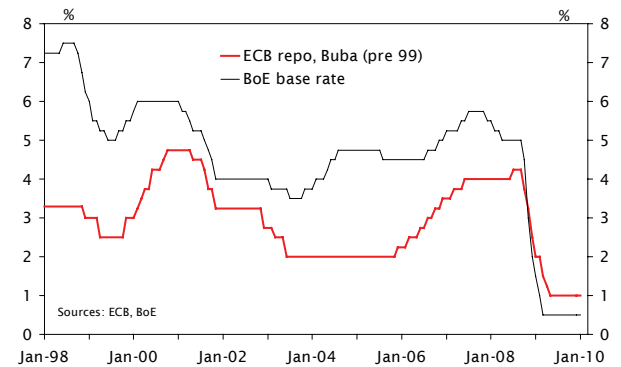
Bank of England and European Central Bank decisions

Feb 4, BoE Last: 0.50%, WBC f/c: 0.50%, Mkt f/c: 0.50%

Feb 4, ECB Last: 1.00%, WBC f/c: 1.00%, Mkt f/c: 1.00%

- After shrinking 6% from peak to trough, the UK economy expanded by a meagre 0.1% in Q4, but snow disruption and the VAT hike in Jan will weaken Q1 GDP and boost inflation. We expect an on hold bank rate and no asset purchase program (QE) extension in Feb but the minutes two weeks later will show a split vote and QE may be extended further later this year, when the economy will be struggling due to aggressive fiscal tightening from the incoming government after national elections in May.
- The ECB Council last met just three weeks prior to the 4/2 meeting, and there have been no major data developments since then, so a similar “current rates remain appropriate... price developments are expected to remain subdued over the policy – relevant horizon” stance is likely. Q4 GDP data due 12/2.

ECB and BoE policy rates



Key Data and Events

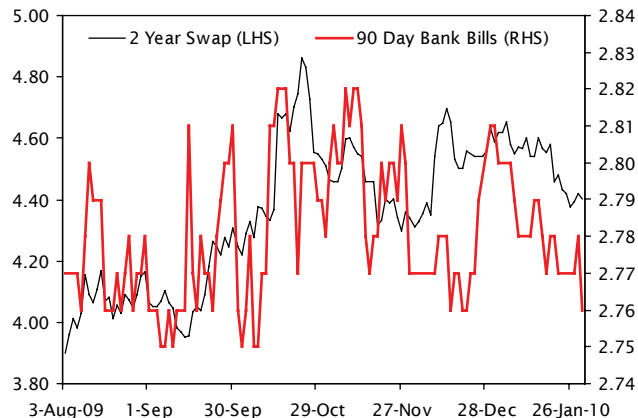
		Last	Market Median	Westpac Forecast	Comments
Mon 1 Feb					
NZ	Jan ANZ Commodity Price Index	2.6%	-	-	Expect slight drop on lower dairy prices.
Aus	Jan AiG PMI	48.5	-	-	Down 2.7ppts in Dec after 4mths above 50 - high AUD a negative.
	Jan TD-MI Inflation Gauge	0.3%	-	-	Dec 0.21% 3mth rate up from -0.39% Oct low; was underest. of Q4 CPI.
	Jan ANZ Job Ads	6.0%	-	-	In uptrend for 5 mths at +2.6% pace in Dec (fastest since May-07).
	Q4 House Prices	4.2%	3.5%	3.5%	Private sector measures show Q4 gains of 1.6%, 3.0% and 4.8% qtr.
US	Dec Personal Income	0.4%	0.3%	0.2%	These reports old news post Q4 GDP. Subdued earnings growth and flat hours worked to constrain income. Retail sales down in Dec,
	Dec Personal Spending	0.5%	0.3%	0.2%	services spending soft. Core CPI was 0.112% before rounding in Dec.
	Dec Core PCE Deflator	flat	0.1%	0.1%	
	Jan ISM Factory	54.9	55.5	55.5	Empire, Dallas, Richmond stronger, Philly weaker.
	Dec Construction Spending	-0.6%	-0.5%	-0.8%	Housing weakness plus ongoing commercial decline.
Eur	Jan PMI Factory (F)	52.0 a	52.0	52.0	Revisions usually minor.
UK	Jan House Prices %yr	-1.9%	-	-	Hometrack survey.
	Dec Net Consumer Credit £bn	-0.4	-0.4	-	Loans outstanding have been shrinking since July.
	Dec Net Mortgage Lending £bn	1.5	1.6	-	Almost begrudging upswing - compares to £10bn mth gains in 06/07
	Jan PMI Manufacturing	54.1	53.9	53.0	Snow related disruption?
Tue 2 Feb					
NZ	Q4 Labour Cost Index Pvt Ord Time	0.4%	0.4%	0.5%	Effect of recession waning.
	Q4 QES Private Sector Ord Time	1.7%	-	-0.2%	Payback from implausibly strong Q3.
Aus	Dec NAB Business Survey	10.3	-	-	Conditions index at above trend levels in Oct & Nov.
	RBA Policy Announcement, 2:30pm	3.75%	4.00%	4.00%	Rates to rise 0.25% - lessening stimulus as economy rebounds strongly.
US	Dec Pending Home Sales	-16.0%	1.0%	3.0%	Extended tax credit for homebuyers to impact.
	Jan Auto Sales mn ann'lsd	11.2	10.9	10.5	Fewer auto sales due to weather disruption.
Jpn	Dec Labour Earnings %yr	-2.8%	-	-	Cycle low was -5.9%yr. No support for consumption recovery here.
Eur	Dec PPI %yr	-4.4%	-3.0%	-3.0%	Base effects to lift annual rate sharply.
Ger	Dec Retail Sales	-1.1%	0.9%	-	Tentative date due 2-8/2
UK	Jan House Prices %yr	1.1%	3.6%	-	Tentative date for HBoS series, due 2-6/2.
Wed 3 Feb					
Aus	Dec International Trade Bal, AUDbn	-1.7	-2.4	-2.5	Stronger rural & NR X vols & prices for X +2.4%; swamped by 6% M jump.
US	Jan Corporate Layoff Announcements	-	-	-	Declining, and as such a guide to improving job market.
	Jan ADP Private Payrolls Change	-84k	-40k	-40k	ADP picked the Dec payrolls report well (for a change).
	Jan ISM Non-Manufacturing Survey	49.8	51.0	50.5	Snow disruption and high gasoline prices to impact on services.
Eur	Jan PMI Services (F)	52.3 a	52.3	52.3	Revisions usually minor.
	Dec Retail Sales	-1.2%	0.4%	-	Three declines in last four months.
UK	Jan PMI Construction	47.1	47.0	47.0	Still contracting.
	Jan Consumer Confidence	69	70	66	Slippage in late 2009 compounded by weak GDP report.
	Jan BRC Shop Price Index %yr	2.2%	-	3.2%	Vat impact.
	Jan PMI Services	56.8	56.5	55.0	Snow disruption? VAT hike impact?
Thu 4 Feb					
NZ	Q4 HLFs Employment	-0.8%	-0.1	0.3%	Hours much higher, employment only slightly higher.
	Q4 HLFs Unemployment	6.5%	6.8%	6.7%	Unemployment is peaking.
	Dec External Migration ann.	20,100	-	21,500	Migration levelling off.
Aus	Dec Retail Sales	1.4%	0.2%	0.5%	Nov result a clear signal of quickening discretionary spend though CPI
	Q4 Real Retail Sales	-0.4%	1.0%	0.6%	points to stronger retail prices Q4 and a more muted bounce in vols.
	Dec Dwelling Approvals	5.9%	flat	1.0%	Gap to finance approvals suggests big backlog of dwellings.
US	Q4 Productivity % ann'lsd	8.1%	6.0%	5.0%	Forecast subject to revision after release of Q4 GDP 29/1
	Q4 Unit Labour Costs % ann'lsd	-2.5%	-2.5%	-1.7%	Same applies to ULC, though a fall of some magnitude is likely.
	Initial Jobless Claims w/e 30/1	470k	455k	450k	Backlog of claims from new year has been slow to clear.
	Dec Factory Orders	1.1%	0.5%	0.5%	Durables known up just 0.3%, energy prices little changed.
	Jan Chain Store Sales %yr	2.8%	-	-	Guide to official retail data.
Eur	ECB Rate Decision	1.00%	1.00%	1.00%	Firmly on hold. Little has changed since last meeting 3 weeks ago.
Ger	Dec Factory Orders	2.8%	0.2%	-1.0%	Surprise orders spike at end of 2009 may not be sustainable.
UK	BoE Rate Decision	0.50%	0.50%	0.50%	Firmly on hold.
	BoE QE Target £bn	200	200	200	No extension yet but if minutes show split vote may extend QE later.
Can	Dec Building Permits	-4.6%	2.5%	-	Trend in housing is rising strongly.
	Jan Ivey PMI nsa	48.4	52.5	-	Jan seasonality is not easy to determine.
Fri 5 Feb					
Aus	RBA Statement on Monetary Policy	-	-	-	Explain need to lessen stimulus. Market to focus on inflation forecasts.
US	Jan Non-Farm Payrolls ch'	-85k	13k	-40k	Tough call this month given snow, benchmark revisions, census jobs
	Jan Unemployment Rate	10.0%	10.0%	10.0%	and the most aggressive seasonal factors of the year. See text box.
	Dec Consumer Credit \$bn	-17.5	-9.5	-	Falling away as consumers restrain spending and pay down debt.
	Fedspeak	-	-	-	St Louis Fed President Bullard on monetary policy.
Ger	Dec Industrial Production	0.7%	0.6%	1.0%	Late 2009 orders bounce should drive further gain.
UK	Jan PPI %yr	2.6%	2.6%	-	Core output measure.
Can	Jan Employment ch'	-3k	15k	20k	Q4 saw trend monthly jobs gain of 11k.

New Zealand Economic and Financial Forecasts

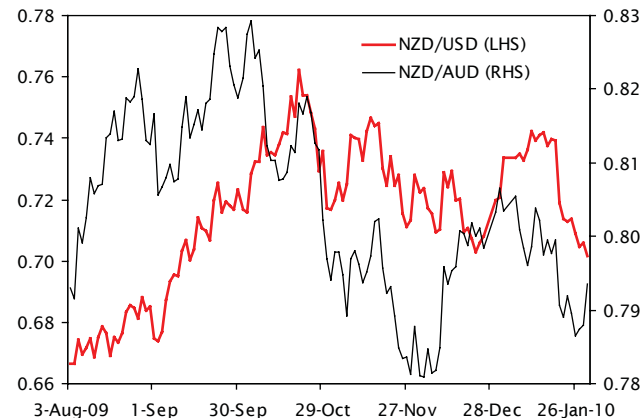
Economic Growth Forecasts	March years				Calendar years			
	2008	2009	2010f	2011f	2008	2009f	2010f	2011f
% change								
GDP (Production) ann avg	2.9	-1.4	-0.1	4.2	-0.1	-1.4	3.7	4.3
Employment	-0.3	0.7	-0.9	1.7	0.9	-2.2	1.1	2.1
Unemployment Rate % s.a.	3.8	5.0	6.7	5.9	4.7	6.7	6.1	5.3
CPI	3.4	3.0	2.3	2.8	3.4	2.0	2.7	2.8
Current Account Balance % of GDP	-7.8	-7.9	-2.1	-4.9	-8.7	-2.1	-4.7	-5.1

Financial Forecasts	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Cash	2.50	3.00	3.50	4.00	4.50	5.00	5.50
90 Day bill	2.90	3.40	4.00	4.50	5.00	5.50	6.00
2 Year Swap	4.80	5.10	5.40	5.60	5.80	6.20	6.00
5 Year Swap	5.60	5.80	6.00	6.20	6.30	6.40	6.50
10 Year Bond	5.90	6.00	6.00	6.10	6.20	6.30	6.40
NZD/USD	0.77	0.73	0.76	0.78	0.77	0.75	0.72
NZD/AUD	0.80	0.81	0.82	0.82	0.83	0.83	0.84
NZD/JPY	67.8	67.9	73.0	78.0	81.6	81.8	80.6
NZD/EUR	0.51	0.50	0.51	0.52	0.52	0.51	0.49
NZD/GBP	0.43	0.42	0.42	0.43	0.43	0.40	0.38
TWI	67.4	65.9	67.9	69.6	70.2	69.0	67.0

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 1 February 2010

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.77%	2.75%	2.72%
60 Days	2.75%	2.76%	2.74%
90 Days	2.80%	2.77%	2.80%
2 Year Swap	4.37%	4.56%	4.62%
5 Year Swap	5.31%	5.42%	5.62%

NZ foreign currency midrates as at Monday 1 February 2010

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.7003	0.7978	0.7335
NZD/EUR	0.5054	0.5138	0.5085
NZD/GBP	0.4390	0.4526	0.4553
NZD/JPY	63.040	67.080	67.930
NZD/AUD	0.7964	0.7978	0.8034
TWI	64.800	66.780	66.660

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2005	2006	2007	2008	2009e	2010f	2011f
Australia							
Real GDP % yr	2.8	2.9	4.0	2.4	1.0	3.0	3.2
CPI inflation % annual	2.8	3.3	3.0	3.7	2.0	2.2	2.7
Unemployment %	5.1	4.8	4.4	4.3	5.6	6.0	5.9
Current Account % GDP	-5.8	-5.3	-6.3	-4.6	-4.1	-5.1	-5.4
United States							
Real GDP %yr	3.1	2.7	2.1	0.4	-2.5	1.5	3.1
Consumer Prices %yr	3.4	3.2	2.9	3.8	-0.5	1.3	2.4
Unemployment Rate %	5.1	4.6	5.8	5.8	9.3	10.7	10.6
Current Account %GDP	-6.1	-6.0	-5.3	-4.9	-3.0	-2.6	-1.8
Japan							
Real GDP %yr	1.9	2.8	2.2	-0.9	-5.8	1.6	1.8
Consumer Prices %yr	-0.3	0.2	0.1	1.4	-1.2	-0.7	0.3
Unemployment Rate %	4.4	4.1	3.9	4.0	5.1	5.3	5.2
Current Account %GDP	3.6	3.9	4.8	3.2	2.6	3.1	3.9
Euroland							
Real GDP %yr	1.7	2.9	2.7	0.6	-4.0	0.6	1.2
Consumer Prices %yr	2.5	2.0	3.1	1.6	0.3	0.7	1.2
Unemployment Rate %	8.8	7.9	7.3	7.8	10.0	11.5	10.8
Current Account %GDP	-0.2	-0.5	0.0	-0.2	0.0	0.4	0.4
United Kingdom							
Real GDP %yr	2.2	2.9	2.6	0.7	-4.7	0.4	1.2
Consumer Prices %yr	2.1	3.0	2.1	3.5	1.5	2.8	1.5
Unemployment Rate %	2.8	3.0	2.5	3.1	5.5	7.0	7.3
Current Account %GDP	-2.6	-3.0	-2.8	-2.3	-3.0	-3.0	-2.0

Forecasts finalised 9 December 2009

Interest Rate Forecasts	Latest (Feb 1)	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Australia						
Cash	3.75	4.00	4.50	4.50	4.50	4.75
90 Day Bill	4.27	4.30	4.70	4.60	4.75	5.00
10 Year Bond	5.38	5.70	6.00	6.00	6.00	6.25
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.58	3.40	3.50	3.60	4.00	4.50
ECB Repo Rate	1.00	1.00	1.00	1.00	1.25	2.00
Exchange Rate Forecasts						
AUD/USD	0.8793	0.96	0.90	0.93	0.95	0.93
USD/JPY	90.03	88	93	96	100	106
EUR/USD	1.3856	1.51	1.47	1.50	1.51	1.47
AUD/NZD	1.2556	1.25	1.23	1.22	1.22	1.21

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