

# Weekly Commentary

7 December 2009

## Delaying the inevitable

Thursday's *Monetary Policy Statement* comes in much different circumstances to other statements so far this year.

Once again, the pace of the recovery has proven to be stronger than expected, and it's also becoming apparent that the recession hasn't done as much to alleviate inflation pressures as expected. But this time, the good news hasn't been accompanied by a material tightening in financial conditions, through higher long-term interest rates or a stronger currency – in fact the latter has eased since the last OCR review in October. As a result, we expect a more hawkish set of forecasts in the *MPS*, as the RBNZ get to grips with the degree of tightening that will be needed as conditions return to normal.

The international outlook has continued to improve in recent months. Consensus forecasts for trading partner growth in 2009 and 2010 are in total 1.1% ahead of what the RBNZ assumed in September. The largest upward revisions by far have been for Australia and South-East Asia, and China is expected to keep steaming along at well in excess of 8% annual growth.

In New Zealand, the recovery has been steady rather than spectacular, but is set to pick up the pace. The indicators we have to date point to modest growth of 0.4% in the September quarter, ahead of the RBNZ's last forecast of 0.1%. However, the December and March quarters could be absolute stormers with growth of 1% or more. Consumers appear to have

stopped retrenching, and asset values and job prospects are starting to look more supportive.

The turnaround in fortunes has been most apparent in the housing market. On the REINZ's new stratified house price measure, prices have risen more than 9% from the lows in January, and are just 3% below the peaks seen two years ago. We've referred to this as a 'mini-boom', to the extent that has been seen in prices more so than turnover, and is largely a response to short-lived demand factors – low mortgage rates and rising net migration – and a shortfall in new homebuilding activity.

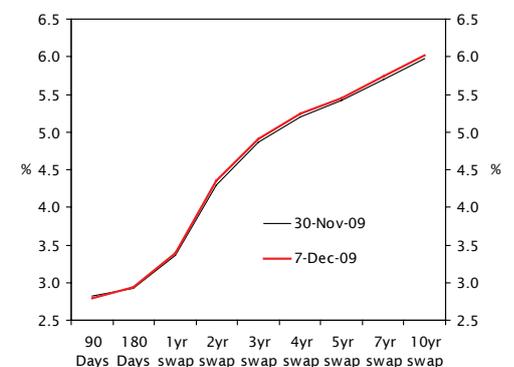
Higher commodity prices, especially for dairy, are a major positive for the economy. Prices for whole milk powder in Fonterra's online auction are up 25% since September (or 49% if measured from the dates when the *MPS* forecasts are finalised). A substantial share of this increase will be captured by dairy farmers, with Fonterra increasing their payout forecast for the current season twice since September, from \$4.55/kg to \$6.05/kg. Export volumes aren't faring too badly either, thanks to strong demand from China, which is now expanding into other products such as wood, wool and meat.

Actual and expected inflation are running well ahead of what the RBNZ would have assumed in September. Annual inflation bottomed out at 1.7% in the September quarter –

barely below the mid-point of the 1-3% target band, even after five quarters of deep recession, and well above the RBNZ's forecast of 1.2%. Perhaps even more concerning is that surveyed inflation expectations for two years ahead have jumped from 2.25% to 2.61% in the last quarter. To be sure, this may be in part a reaction to the big upside surprise on past inflation. But the RBNZ can't be comfortable with the fact that businesses have been so quick to associate 'normal' GDP growth with a 'normal' rate of inflation at the upper end of the target range.

Crucially, the exchange rate is broadly in line with what the RBNZ projected in September. At every other OCR review since April, the exchange rate has been rampantly higher than expected, which in the RBNZ's mind has completely offset the surprisingly good news from elsewhere. But this time, the weight of developments

**NZ Interest Rates**



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

since the September *MPS* is overwhelmingly in favour of higher interest rates.

For now, the RBNZ's key concern will be managing the tightening process, and market expectations around it. The language in the media release is likely to be relatively cautious, focusing on the near-term outlook for interest rates rather than the degree of tightening that will be required in later years. Market pricing is now more in agreement with what the RBNZ have been arguing for in recent months – the expected timing of the first rate hike has been pushed back from January to April, and the NZ dollar has weakened against the Australian dollar (although contrary to the RBNZ's contention, our fair value model indicates that the NZD was already undervalued on this cross rate, and has become more so). The RBNZ is currently in a sweet spot with regard to market perceptions, so

they will be reluctant to abandon this by changing their language dramatically. We think if they can get away with retaining the wording of the October statement, they'll do so – in particular, their assertion that the OCR will remain on hold "until the second half of 2010".

But the underlying story will be that, beyond this date, there is a lot of work to be done to bring interest rates back to neutral settings before inflation becomes a genuine problem again. There's no dispute that the next move in the OCR will be up – the September *MPS* projections included a substantial amount of tightening in 2011 and beyond. We estimate that the impact of recent developments would add an extra 70-80 basis points to this profile.

A steeper tightening requirement could also mean an earlier start – though even a hike as late as July would just fall within

the RBNZ's previous guidance of no hikes "until the second half of 2010". We think the RBNZ will look to retain this statement if possible, in order to minimise the market reaction.

**Fixed vs. floating:** Six-month fixed mortgage rates have now risen – until now the only fixed term left unscathed. Now that no point on the mortgage curve is 'safe', we could see borrowers seek to fix at whatever favourable rates are still on offer. 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.

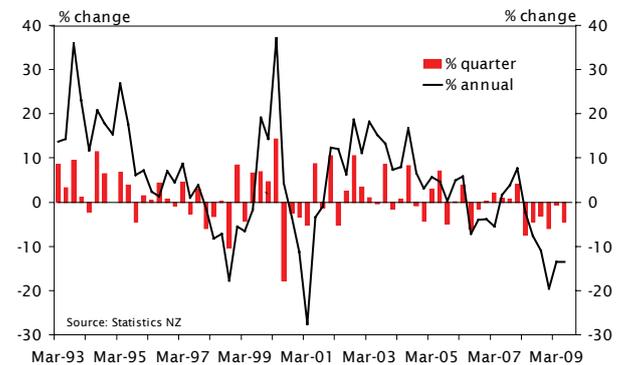
## Key Data Previews

### NZ Q3 building work put in place

Dec 8, Last: -4.5%

- Total building work fell sharply in the June 2009 quarter, led by a further steep decline in residential building.
- Dwelling consents point to a small lift in residential construction in Q3 (in the order of 2-3%). Non-residential building consents are typically lumpy and volatile in nature and recent months have been no exception. However, overall consents data through the first half of the year imply a small increase in commercial building activity around now.
- We expect a more sustained upturn in the construction sector from early 2010, led by the residential sector. However, more recent non-residential building consents figures suggest commercial construction could be a significant drag in the early part of 2010.

NZ real building work put in place

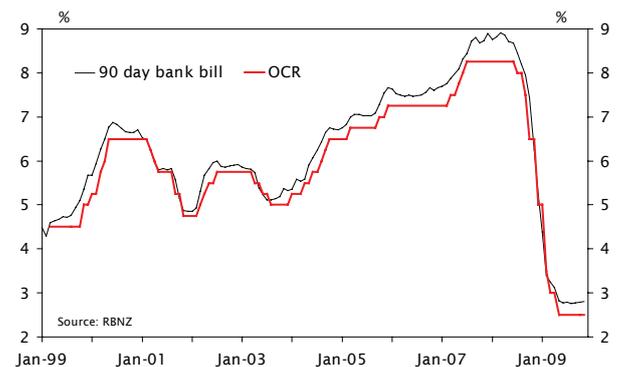


### NZ RBNZ Monetary Policy Statement

Dec 10, Last: 2.50%, WBC f/c: 2.50%, Mkt f/c: 2.50%

- Economic data continues to point to a stronger recovery than expected, and inflation pressures are starting to re-emerge.
- Crucially, this time the positive economic news will not be offset in the RBNZ's mind by a stronger NZ dollar.
- The statement that rates will remain on hold until the second half of 2010 can probably be maintained – just. But the interest rate projections will indicate a substantial degree of tightening further down the road.

NZ OCR and 90 day rate

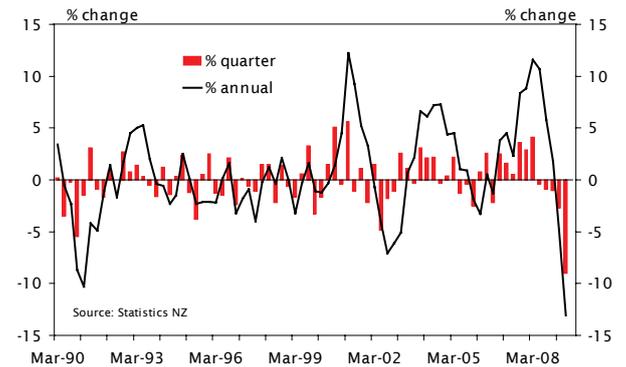


**NZ Q3 terms of trade**

Dec 10, Last: -9.0%, WBC f/c: 2.2%

- A 7% rise in the NZD over Q3 depressed trade prices on both sides of the ledger. We estimate that export prices fell 2.5% and import prices fell 4.6%, with a sharp rise in oil export prices tipping the balance towards a gain in the terms of trade overall.
- Setting aside the exchange rate effects, dairy exports fell again as lower contract prices from earlier this year were realised, but at a slower pace. Other export commodities were mixed. On the imports side, fuel prices rose while manufactured goods prices fell.
- Given the already-published data on trade values, our price forecasts imply a 0.6% drop in export volumes. Dairy exports maintained most of their recent surge, but meat exports may be down as much as 20% due to a shortage of livestock.

**NZ terms of trade**

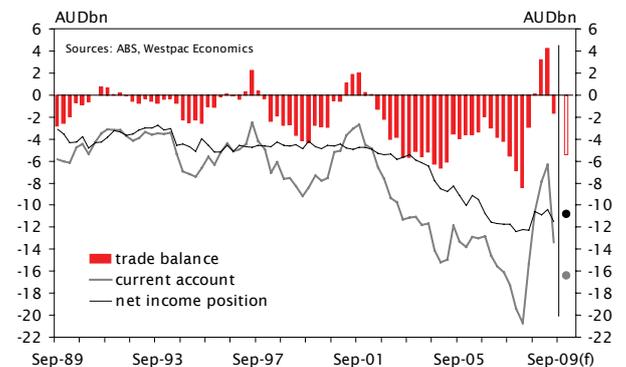


**Aus Q3 current account balance, AUDbn**

Dec 8, Last: -13.3, WBC f/c: -16.4, Mkt f/c: -16.7, Range: -18.3 to -15.4

- With the AUD/USD up 9.6%qtr in Q3, reducing AUD commodity prices, and a strong surge in import volumes from restocking, both valuation effects and a deterioration in net trade volumes will boost the Q3 current account deficit.
- Monthly data showed a price driven 3.3%qtr fall in exports (despite solid volumes growth). Import volumes surged 5.7%qtr and with a smaller fall in prices, import values rose 3%qtr. This drove a \$4.2bn rise in the trade deficit to \$5.4bn.
- The higher trade deficit should be partially offset by fall in the net income deficit to \$10.8bn from \$11.5bn. We expect lower net debt income outflows (lower US short rates and higher A\$) to be supplemented by slightly lower net equity income outflows (with a lesser Australian equity market total return outperformance vs the US (A\$ adjusted) in Q3 relative to Q2.

**Current account balance and components**

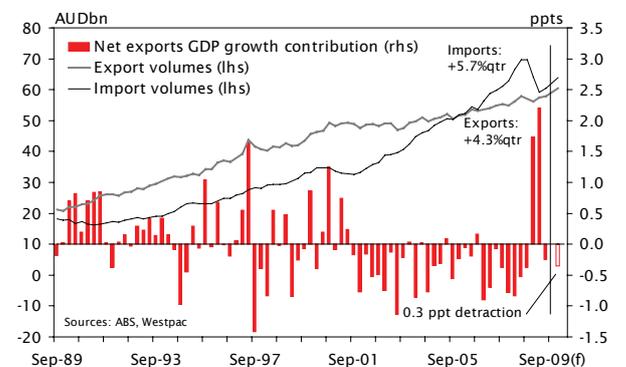


**Aus Q3 net exports contribution to GDP, ppts**

Dec 8, Last: -0.2, WBC f/c: -0.3, Mkt f/c: -0.3, Range: -0.9 to 0.2

- While export values fell 3.3% in Q3, this was price driven with higher USD commodity prices swamped by the 9.6% AUD/USD jump. With prices falling more than values, implied export vols were strong yet again, continuing to outperform signals from MTP growth, led by strong non-rural resources export vols. We expect a 4.3%qtr jump in export vols (vs +1.0% prev).
- Strong consumer demand surprised business in 1H2009, depleting inventories. That's seen consumer goods import vols rise solidly in Q3 (values rose 0.8%; C goods MPI fell 4.7%). Despite weaker private equipment investment in Q3, capital goods import vols were very strong, rising 15% (values +7.0%; prices -6.9%). With partial offset from lower intermediate vols, we expect +5.7%qtr for total import vols (vs +2.1% prev).
- This results in a 0.3ppt net X deduction from Q3 GDP growth.

**Export and import volumes**

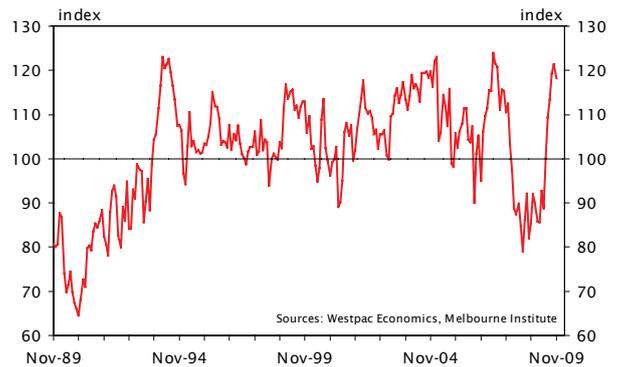


**Aus Dec Westpac-MI Consumer Sentiment**

Dec 9, Last: 118.3

- The *Westpac-Melbourne Institute Index of Consumer Sentiment* fell by 2.5% in November from 121.4 in October to 118.3. However, given that this followed a second 25bp increase in the RBA's cash rate it was a decidedly moderate response with the index still in strongly optimistic territory.
- The December survey is in the field the week ended December 6. It will capture reactions to the RBA's third consecutive 25bp rate hike in as many months and the decision by some major banks to raise variable mortgage rates over and above the official move. Other likely influences include the strong October jobs data which suggest labour markets are stabilising with unemployment at much lower than expected levels; more evidence of sustained growth domestically including solid Oct retail sales; and more gains in house prices and equities (ASX up 3½% since the Nov survey).

**Consumer Sentiment**

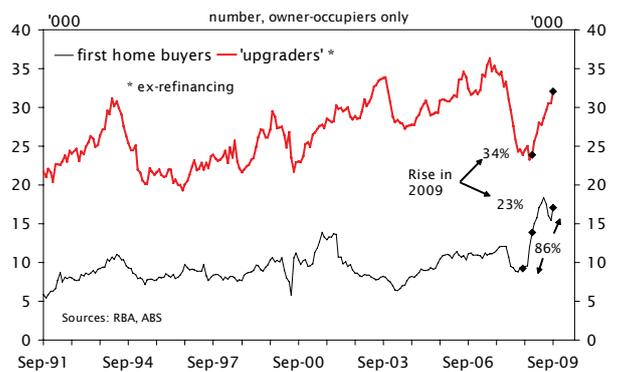


**Aus Oct housing finance**

Dec 9, Last: 5.1%, WBC f/c: -3.5%, Mkt f/c: -2.0%, Range: -4.0% to 2.5%

- Housing finance has surged, with new lending to owner-occupiers up 47% over the last 13 months.
- However, we expect finance to soften in October, with a forecast decline of 3.5%. Notably, the winding back of the additional government incentives for first home buyers (FHBs) from October to December will act as a near-term headwind.
- If, for argument sake, lending to FHBs returned to the level of August 2008, that would see a fall of 46% in the FHB segment and a fall of 16% in total finance to owner-occupiers (holding the Upgrader segment unchanged).
- Prospects are brighter than that though. Upgraders will continue to respond to very low interest rates. Lending to this segment jumped 5% in September to be up 34% this year.

**Housing finance: FHB segment to weaken**

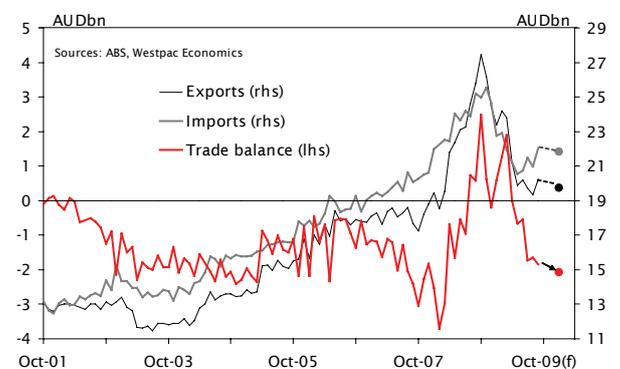


**Aus Oct international trade balance, AUDbn**

Dec 9, Last: -1.849, WBC f/c: -2.1, Mkt f/c: -1.8, Range: -2.3 to -1.2

- The deficit rose \$198mn in Sep to \$1.849bn. Exports provided another volume-driven positive surprise, rising 4.6%. Rural X fell 3.5% with weaker volumes and prices. However, non-rural X rose 2.4% despite weaker prices, implying further impressive volumes gains (albeit narrowly based on coal). Volatile non-monetary gold X surged 64%. Imports surged 5.2% in a month where the AUD rose 3% (denting prices) suggesting ongoing volumes recovery from 1H2009 weakness.
- Port data implies moderately higher non-rural export volumes in October (both iron ore and coal), but with prices down 3.9% and a 3.3ppts s.adj. drag, we expect a 3.5% fall. Rural exports are expected to fall 1% with higher volumes more than offset by a 1.9% fall in prices and a large 6.2ppts s.adj. drag. This gives -2.4% for total exports (but volumes higher). Merchandise import data implies a partially offsetting 2% fall in goods, and we expect -1.2% for total imports.

**Deficit up: M dip outweighed by price-led X fall**

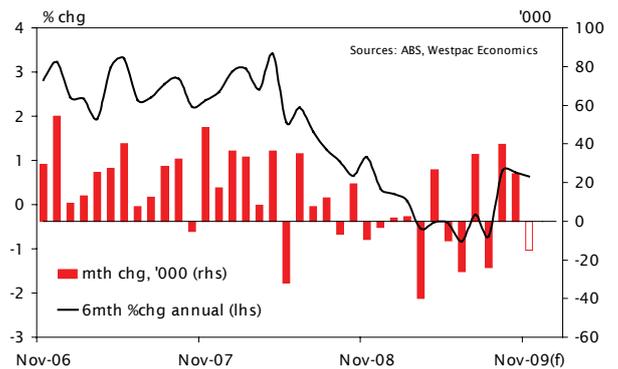


**Aus Nov employment chg**

Dec 10, Last: 24.5k, WBC f/c: -15k, Mkt f/c: 5k, Range: -15k to 20k

- Employment surprised on the upside for the 2nd consecutive month in October, rising 24.5k on top of a 39.8k jump previously. Back to back gains have ended the pattern over the past year where jobs have been saw toothing about a broadly flat trend. Full-time jobs (+2.9k) recorded consecutive gains for the first time since mid-2008. Aggregate monthly hours worked have now been trending higher for 4 months and average hours worked look to have troughed.
- While our composite of business survey employment indices has bounced from its lows, its current read is consistent with 3m MA jobs growth around +7k, below the current +13.4k pace, arguing for some retracement near term.
- We forecast a 15k pullback in jobs, which would still allow trend growth to improve to +0.1%yr from 0.0%yr previously.

**Aust jobs: partial dip leaves trend improving**

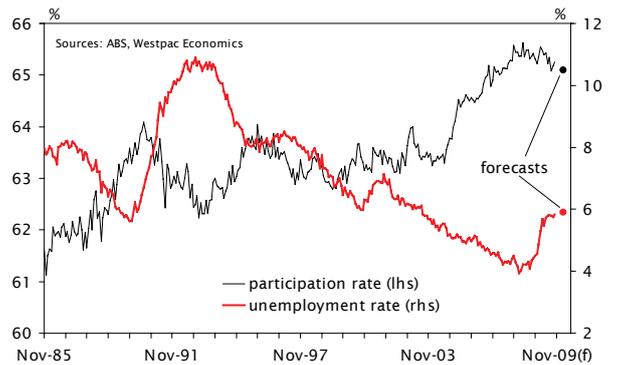


**Aus Nov unemployment rate**

Dec 10, Last: 5.8%, WBC f/c: 5.9%, Mkt f/c: 5.9%, Range: 5.7% to 6.0%

- Despite the solid rise in October jobs, an accompanying 0.1ppt rise in the participation rate to 65.2% drove stronger labour force growth of 35.6k, lifting the unemployment rate to 5.8% from 5.7%. The trend unemployment rate remained at 5.8% for the fifth consecutive month.
- Historically, months of employment falls of around 15k, following around 0.1ppt increases in the participation and unemployment rates in the prior month, have been accompanied by an average 0.2ppt fall in the participation rate. But this cycle has seen greater resilience in participation rates, and the October and November 25bp rate hikes should also support participation. We expect a lesser 0.1ppt dip in participation to 65.1%, not enough to offset the 15k jobs fall, lifting the unemployment rate to 5.9% from 5.8% previously.

**Unemployment and participation rates**

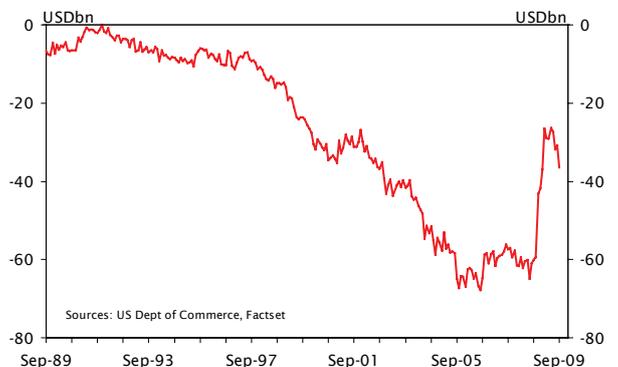


**US Oct trade deficit to widen again, \$bn**

Dec 10, Last: -36.5, WBC f/c: -37.5, Mkt f/c: -37.0

- The trade deficit narrowed dramatically earlier this year, from \$60+bn in mid 2008 to less than half that a year later, reflecting the collapse in global trade, weak domestic demand and sharply lower imported oil prices. But during Q3 this year, the deficit widened sharply again, as an expanding US economy saw import demand soar (compounded by rising oil prices). Exports also recovered, but not as quickly.
- In October, import prices rose 0.7%, and renewed inventory building in some sectors should see volumes rise further. Business surveys suggest recent export momentum is sustainable; but shipments slipped a little and factory output was soft in October. Also, Boeing delivered 40% fewer jets to foreign customers in Oct.
- Exports 0.5%, imports 1.0% >> deficit widens to \$37.5bn.

**US trade balance**

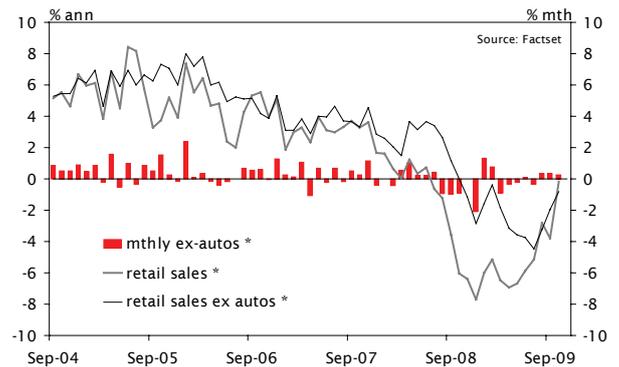


### US Nov retail sales up on autos, gasoline and weather

Dec 11, Last: 1.4%, WBC f/c: 1.0%, Mkt f/c: 0.7%

- Retail sales bounced 1.4% in Oct, buoyed by the recovery in new car sales after Sep's post cash-for-clunkers "hangover". For once, gasoline prices do not seem to have been a factor driving sales values. Excluding those two factors, core retail sales posted a 0.3% rise, their third consecutive gain. The Oct detail showed a steep 2.4% fall in building materials, and ongoing softness in sporting goods (-1.2%), suggesting very wet weather may have constrained core spending.
- In Nov, unit auto sales rose a further 4.5%, and gasoline prices picked up by around 5%. Also, the weather normalised (i.e. was significantly drier), which should see leisure and outdoor related retailing bounce. We expect a 1.0% rise in total retail sales, an ex auto gain of 0.8%, and ex autos and gas sales to have risen by 0.6% – the strongest rise in core retailing since January.

### US retail sales



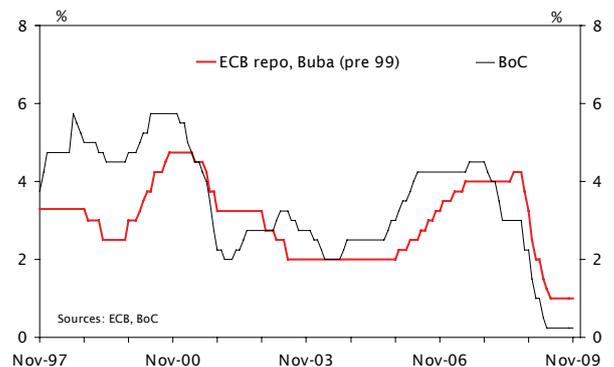
### Bank of Canada and Bank of England on hold

Dec 8, BoC: Last: 0.25%, WBC f/c: 0.25%, Mkt f/c: 0.25%

Dec 10, BoE: Last 0.50%, WBC f/c: 0.50%, Mkt f/c: 0.50%

- On October 20, the BoC noted that global economic recovery had begun, and that "a recovery in economic activity is also under way in Canada". It also reiterated its conditional commitment to keep rates on hold until mid 2010. Since then, it has been reported that Canadian GDP expanded at a weak 0.4% annualised in Q3, much less than the 2% the BoC governor had been expecting. Recent jobs data has been disappointing too. These factors point to on hold policy and the conditional commitment remaining in place.
- The BoE extended its asset purchase program by £25bn, to be completed by February 2010. We do not expect any significant policy announcements from the BoE until then (coinciding with the next quarterly forecasting round), meaning both the Dec and Jan policy meetings are likely to be non-events.

### ECB and BoC policy rates



## Key Data and Events

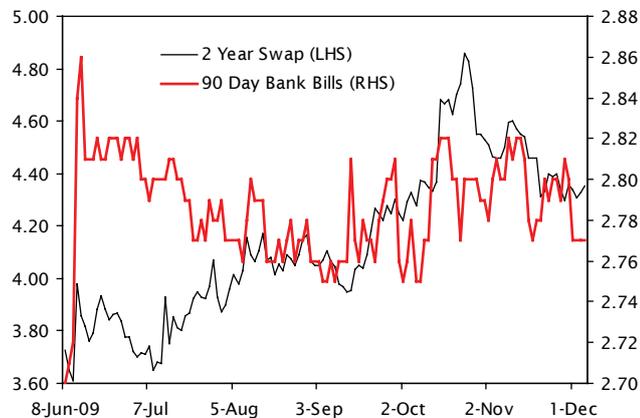
		Last	Market Median	Westpac Forecast	Comments
<b>Mon 7 Dec</b>					
Aus	Nov ANZ Job Ads	-1.7%	-	-	Dip only partially unwound recent gains, continuing uptrend for 3rd mth.
US	Oct Consumer Credit \$bn	-14.8	-9.3	-8.0	Sep weighed down falling auto sales but underlying credit story weak.
Ger	Oct Factory Orders	0.9%	0.8%	1.0%	Still some support coming through from auto scrappage schemes.
Can	Oct Building Permits	1.6%	1.0%	-	Canadian housing market is in upswing again.
<b>Tue 8 Dec</b>					
NZ	Q3 Building Work Put in Place	-4.5%	-	-	Indicators point to small lift in total building work in Q3.
	Q3 Real Manufacturing Sales	1.8%	-	0.5%	Business surveys indicate mild improvement.
Aus	Q3 Current Account Balance, AUDbn	-13.3	-16.7	-16.4	\$4.2bn rise to \$5.4bn trade deficit partially offset by lower NID.
	Q3 Net Export Contrib to GDP, ppts	-0.2	-0.3	-0.3	Non-rural led 4.3% X vols rise more than offset by 5.7% M vols jump.
	Nov NAB Business Survey	12	-	-	Conditions up 8.6pts in Oct to above avg levels. Will it hold here?
	RBA Governor Stevens speaking	-	-	-	ABE Annual Forecasting dinner, Sydney 8:30pm
US	Nov NFIB Small Business Optimism	89.1	-	-	Up since March but gain less spectacular than in big business surveys.
	Dec IBD/TIPP Economic Optimism	47.9	48.5	48.5	Weekly confidence slipped in late Nov, though UoM was revised higher.
	Fedspeak	-	-	-	Chair Bernanke at Eco Club of Washington. Also NY Fed's Dudley.
Jpn	Nov Bank Lending %yr	1.5%	-	-	Last pre-QE read: does the BoJ know something we don't about credit?
	Oct Current Account ¥bn sa	1338	1565	-	Surplus has been partially repaired, with more to come.
Ger	Oct Industrial Production	2.7%	1.0%	1.0%	Recent orders strength now delivering factory output uptrend.
UK	Nov BRC Retail Sales Monitor %yr	3.8%	-	-	Same store sales measure.
	Oct Industrial Production	1.6%	0.5%	0.5%	Sep bounce did not fully recover Aug's steep decline.
	Dec CBI Industrial Trends Survey	-45	-	-	Orders index.
Can	Nov Housing Starts	157.4k	160k	-	Canadian housing data are volatile but uptrend is apparent.
	BoC Rate Decision	0.25%	0.25%	0.25%	Will BoC stick with commitment to maintain low rates till mid 2010?
<b>Wed 9 Dec</b>					
NZ	Nov Electronic Card Transactions	0.2%	-	-	Indicator to November retail sales; moderate rise expected.
Aus	Dec Westpac-MI Consumer Sentiment	118.3	-	-	Interest rate rises starting to bite?
	Oct Housing Finance, no.	5.1%	-2.0%	-3.5%	After surge, expect near-term softening - winding back of FHB scheme.
	Oct International Trade Bal, AUDbn	-1.849	-1.8	-2.1	Rural X -1%, NR X -3½% (prices down & SA drag) for X -2.4%; M -1.2%.
US	Oct Wholesale Inventories	-0.9%	-0.5%	-0.7%	Early clue to contribution to/drag from Q4 GDP growth from stocks.
Jpn	Q3 GDP %saar - 2nd estimate	4.8%	2.8%	-	Downside revisions from capex and inventories
UK	Nov Consumer Confidence	72	70	69	Nationwide index. GfK consumer confidence fell in Nov.
	Oct Visible Trade Balance £bn	-7.2	-6.8	-	Sharply wider deficit in Sep partly function of weaker pound.
	Nov BRC Shop Price Index %yr	0.0%	-	-	Early clue to part of CPI basket.
	Pre-Budget Report	-	-	-	Chancellor Darling's (last?) update on the state of UK public finances.
<b>Thu 10 Dec</b>					
NZ	RBNZ Monetary Policy Statement	2.50%	2.50%	2.50%	Soft language, belying markedly higher interest rate projections.
	Q3 Terms of Trade	-9.0%	-	2.2%	Stronger NZD depressing prices on both sides of the ledger.
Aus	Nov Employment chg	24.5k	5k	-15k	Partial dip after 2 strong gains; business surveys imply less robust uptrend.
	Nov Unemployment Rate	5.8%	5.9%	5.9%	Jobs pullback partially offset by 0.1ppt participation rate dip to 65.1%.
	Dec MI Consumer Inflation Expect's	3.2%	-	-	Down 0.3ppts in Nov after Q3 CPI, slowing uptrend since March.
	Dec WBC-MI Unemployment Expect's	2.8%	-	-	Nov rise followed 8 straight falls; rapid 38% downtrend since Feb peak.
	RBA Board Member McKibbin speaking	-	-	-	Westpac Research & Strategy Forum, Sydney 10:45am
	RBA Assistant Governor DeBelle speaking	-	-	-	Westpac Research & Strategy Forum, Sydney 12:45pm
US	Oct Trade Balance \$bn	-36.5	-37.0	-37.5	Deficit widening again as global trade picks up, US economy recovers.
	Initial Jobless Claims w/e 5/12	457k	460k	490k	Thanksgiving holiday distortion from last week to unwind.
	Nov Federal Budget \$bn	-176.4	-135.0	-	October deficit was an all-time record.
Jpn	Oct Machinery Orders	10.5%	-4.5%	-	Whippy series could fall by high single digit percentage after big gain.
Eur	Dec ECB Bulletin	-	-	-	Will include more detail on latest ECB staff economic forecasts.
UK	BoE Rate Decision	0.50%	0.50%	0.50%	No change in rates or size of quantitative easing program expected.
Can	Oct Trade Balance C\$bn	-0.9	-0.7%	-	Has been in deficit for most of this year.
<b>Fri 11 Dec</b>					
NZ	Nov Food Prices	-1.5%	-	-	Looking for small rebound following very weak October.
US	Nov Import Prices	0.7%	1.2%	1.5%	Oil prices on the rise again.
	Nov Retail Sales	1.4%	0.7%	1.0%	Auto sales known up 5%, gasoline prices rose in early Nov, and core retailing likely stronger as weather improved from cold, wet October.
	Nov Retail Sales ex Autos & Gas	0.3%	0.3%	0.6%	Upward revision to Nov and steadier gasoline prices suggest gain.
	Dec UoM Consumer Sentiment Prelim	67.4	69.0	69.5	More guidance re impact of inventories on Q4 GDP growth.
	Oct Business Inventories	-0.4%	-0.2%	-0.5%	Fed Gov Duke in Chicago.
	Fedspeak	-	-	-	Fed Gov Duke in Chicago.
UK	Nov PPI %yr	2.0%	2.1%	-	Core output measure.
Can	Oct New House Prices	0.5%	0.4%	-	Rising again for three months now.

## New Zealand Economic and Financial Forecasts

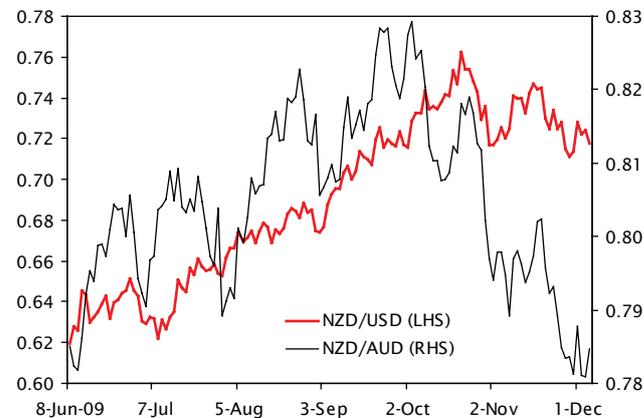
Economic Growth Forecasts	March years				Calendar years			
	2008	2009	2010f	2011f	2008	2009f	2010f	2011f
% change								
GDP (Production) ann avg	3.1	-1.1	0.0	3.8	0.0	-1.3	3.5	3.8
Employment	-0.3	0.7	-0.8	1.6	0.9	-2.1	1.0	1.8
Unemployment Rate % s.a.	3.8	5.0	6.7	5.3	4.7	6.7	6.3	5.5
CPI	3.4	3.0	2.4	2.8	3.4	2.5	2.4	2.8
Current Account Balance % of GDP	-7.9	-8.1	-2.2	-4.4	-8.9	-2.3	-4.2	-5.2

Financial Forecasts	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Cash	2.50	2.75	3.25	3.75	4.25	4.75	5.25
90 Day bill	2.90	3.20	3.70	4.20	4.70	5.20	5.70
2 Year Swap	4.70	5.10	5.40	5.70	5.90	6.10	6.20
5 Year Swap	5.80	6.00	6.10	6.20	6.30	6.40	6.50
10 Year Bond	6.00	6.10	6.20	6.30	6.30	6.40	6.50
NZD/USD	0.77	0.77	0.73	0.76	0.78	0.77	0.75
NZD/AUD	0.80	0.80	0.81	0.82	0.82	0.83	0.83
NZD/JPY	67.8	67.8	67.9	73.0	78.0	81.6	81.8
NZD/EUR	0.51	0.51	0.50	0.51	0.52	0.52	0.51
NZD/GBP	0.44	0.43	0.42	0.42	0.43	0.43	0.40
TWI	67.5	67.4	65.9	67.9	69.6	70.2	69.0

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



## NZ interest rates as at market open on Monday 7 December 2009

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.79%	2.77%	2.78%
60 Days	2.79%	2.77%	2.78%
90 Days	2.79%	2.79%	2.80%
2 Year Swap	4.35%	4.40%	4.50%
5 Year Swap	5.46%	5.53%	5.67%

## NZ foreign currency midrates as at Monday 7 December 2009

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.7155	0.7339	0.7248
NZD/EUR	0.4816	0.4899	0.4883
NZD/GBP	0.4354	0.4421	0.4364
NZD/JPY	64.630	65.410	65.120
NZD/AUD	0.7823	0.7932	0.7893
TWI	64.170	65.330	64.870

## Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2004	2005	2006	2007	2008	2009f	2010f
<b>Australia</b>							
Real GDP % yr	3.8	2.8	2.9	4.0	2.4	1.0	2.8
CPI inflation % annual	2.6	2.8	3.3	3.0	3.7	2.0	2.2
Unemployment %	5.4	5.1	4.8	4.4	4.3	5.7	6.4
Current Account % GDP	-6.1	-5.8	-5.3	-6.3	-4.6	-4.1	-4.7
<b>United States</b>							
Real GDP %yr	3.6	3.1	2.7	2.1	0.4	-2.5	1.6
Consumer Prices %yr	2.6	3.4	3.2	2.9	3.8	-0.5	1.3
Unemployment Rate %	5.5	5.1	4.6	5.8	9.2	10.5	10.8
Current Account %GDP	-5.7	-6.1	-6.0	-5.3	-4.9	-2.9	-2.5
<b>Japan</b>							
Real GDP %yr	2.3	1.9	2.8	2.2	-1.0	-6.0	1.1
Consumer Prices %yr	-0.1	-0.3	0.2	0.1	1.4	-1.2	-0.6
Unemployment Rate %	4.5	4.4	4.1	3.9	4.0	5.2	5.9
Current Account %GDP	3.3	3.6	3.9	4.8	3.2	2.6	3.0
<b>Euroland</b>							
Real GDP %yr	2.2	1.7	2.9	2.7	0.6	-4.0	0.7
Consumer Prices %yr	2.1	2.5	2.0	3.1	1.6	0.3	0.7
Unemployment Rate %	9.0	8.8	7.9	7.3	7.8	10.0	11.5
Current Account %GDP	0.0	-0.2	-0.5	0.0	-0.2	0.0	0.4
<b>United Kingdom</b>							
Real GDP %yr	3.0	2.2	2.9	2.6	0.7	-4.7	0.3
Consumer Prices %yr	1.3	2.1	3.0	2.1	3.5	1.0	1.2
Unemployment Rate %	2.8	2.8	3.0	2.5	3.1	5.5	7.0
Current Account %GDP	-1.9	-2.6	-3.0	-2.8	-2.3	-3.0	-3.0

Forecasts finalised 6 November 2009

Interest Rate Forecasts	Latest (Dec 7)	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
<b>Australia</b>						
Cash	3.50	3.75	4.00	4.50	4.50	4.50
90 Day Bill	4.05	4.00	4.30	4.70	4.60	4.75
10 Year Bond	5.38	6.00	5.70	6.20	6.50	6.50
<b>International</b>						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.47	3.50	3.20	3.75	4.25	4.50
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.25
<b>Exchange Rate Forecasts</b>						
AUD/USD	0.9146	0.96	0.96	0.90	0.93	0.95
USD/JPY	90.33	88	88	93	96	100
EUR/USD	1.4857	1.51	1.51	1.47	1.50	1.51
AUD/NZD	1.2783	1.25	1.25	1.23	1.22	1.22

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