Weekly Commentary

31 May 2010

Fair trade

For those who could bear to take their eyes off events in Europe and the volatility in global markets, there was another round of positive news for the New Zealand economy last week.

Fonterra announced an initial payout forecast for the 2010/11 season of $6.60/kg of milksolids, plus a distributable profit of 30-50c per share. The milk price is a 50c improvement on the current season, and combined with our forecast of higher production, this would boost industry-wide earnings by almost $1bn next season.

The payout forecast tends to be conservative at the start of the season, and is usually (but not always) revised higher as the season progresses and there is more certainty about the prices that can be secured. Indeed, Fonterra mentioned that if world dairy prices and the exchange rate hold at current levels the total payout could be well over $8/kg, which would be a new record. However, global markets are highly uncertain at the moment – a lot of things will need to go right in order to reach that sort of payout.

So we'll need to closely watch the indicators of global demand such as Fonterra's monthly online auction (the next one is on June 1). It will also pay to keep an eye on the real-time market indicators that are starting to emerge – skimmed milk powder futures were introduced on the Chicago exchange this week (though it appears there haven't been any trades yet), and the NZX is expected to introduce whole milk powder futures next month.

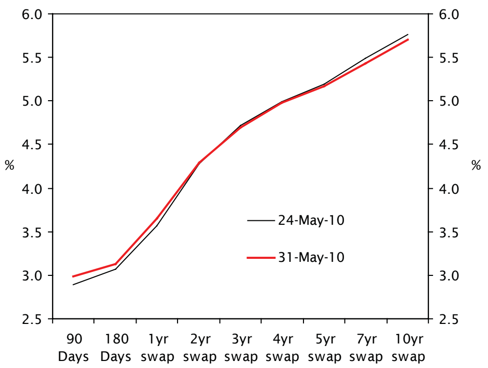
The higher world prices for dairy products shone through in the April merchandise trade figures, which saw the annual balance move into surplus for the first time since 2002. Dairy export receipts led the way, with volumes stronger than we expected given the drought conditions that curtailed output in some parts of the country. Rounding out the top four export categories, meat, wood and oil were all up on a year ago. Meanwhile, imports have remained fairly subdued during this upturn – modest volume growth has been more than offset by falling prices to date.

Housing consents rose 8.5% in April, a strong gain following a flat outturn in March. The total number of consents is 32% higher than a year ago, and excluding apartments they are up 60% on last year. These figures are significant given that stronger residential investment is a key part of our (and the RBNZ's) above-consensus growth forecasts, especially over the next year. Population growth (aided by positive net migration), combined with under-building during the recession, means that a sharp pickup in construction is needed to avoid a housing shortage in coming years. In the short term, there's probably also an element of builders looking to get work done ahead of the GST increase in October – confirmed in this month's Budget, but widely anticipated long before then.

The final piece of data wasn't exactly a positive for the economy, but certainly reinforced the sense that conditions are returning to normal. The RBNZ's quarterly survey found that businesses expect inflation to reach 2.8% in two years' time, compared to 2.65% in the last survey. Expectations for one year ahead were 2.9%, which suggests that on average respondents didn't factor the GST hike or any second-round effects into their thinking. NZ has just been through its deepest recession in decades and the economy should have plenty of spare capacity, yet people are still expecting inflation to gravitate towards the top of the RBNZ's 1-3% target range. That puts further pressure on the RBNZ to demonstrate that it is prepared to keep inflation in check.

As a point of interest, this week the IMF released its 'Article IV' consultation report for NZ. The main findings were already

NZ Interest Rates



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

Published by Westpac, PO Box 691, Wellington, ph: (04) 381 1413. For further information contact Brendan O'Donovan, Michael Gordon, Donna Purdue or Dominick Stephens. For email address changes contact natalie_denne@westpac.co.nz

covered in a statement following the IMF's visit in March, and of course they won't have come as news to the government officials who were involved in the visit. But there was one headline-grabbing statement that deserves to be fleshed out: that the NZ dollar is overvalued by between 10% and 25%, based on a range of models.

Three of the IMF's four models focused on what it would take to stabilise NZ's international position, either in terms of the current account deficit or net foreign liabilities. The tricky part is that the estimated overvaluation is relative to the IMF's base case – which is for the current account deficit to blow out to 8% of GDP by 2013, and remain there in later years. What's more, this blowout is driven not by the trade balance – which is expected to remain in surplus – but by the investment income deficit, i.e. the interest paid on overseas debt and the profits earned by foreign-owned firms. Our back-of-the-envelope calculations suggest that in order to meet the IMF's forecasts, this income deficit would have to be maintained at levels unseen even at the peak of the last cycle. That's a pretty extreme assumption, and there's simply no effort to justify it.

The fourth model focused on 'fair value' measures of the exchange rate such as the terms of trade and relative productivity, giving an overvaluation of just 8%. We're comfortable with the model but we think the assumptions are a bit light. For instance, the IMF expects the terms of trade to rise by about 6% this year; we estimate that it rose nearly 10% in the March quarter alone, as the rebound in dairy prices flowed through with a lag.

We don't mean to pick on the IMF specifically. But their outlook may be symptomatic of a more widely-held view: that the next upturn has to look like the last one, driven by a nexus of rising house prices, borrowing, and consumption. We'd argue that the mechanisms just aren't in place for such a repeat performance (in fact, some of them have been reversed). Instead, we expect the current upturn to be driven by stronger production and exports, with spending and investment more in line with growth in incomes.

Fixed vs. floating: Stronger data and a more confident tone from the RBNZ have cleared the path for a series of rate hikes, with June the most likely starting date. The decision to fix or float is finely balanced – floating rates are lower than short-term fixed rates at the moment, but they are likely to rise faster as the RBNZ increases the OCR. Fixing, if even for a short term, has the advantage of greater certainty around cash flows, at a time when floating rates could be rising rapidly. Repaying more than the minimum amount, and spreading the loan over a mix of terms, can also help to reduce the overall risk around uncertain future interest rate changes.

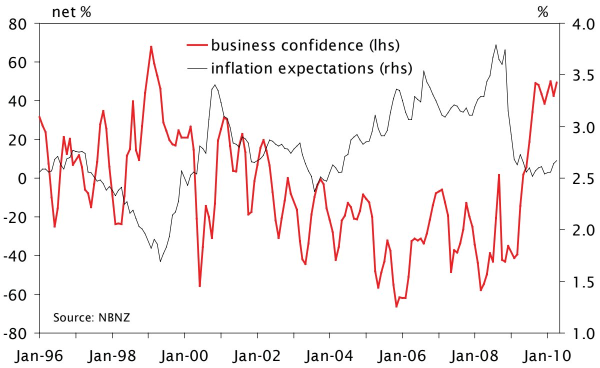
Key Data Previews

NZ May NBNZ business confidence

May 31, Last: 49.5%

- Business confidence rose again in April, with the own-activity measure reaching a new high for this cycle. The improvement was seen across all sectors and in almost all indicators of business intentions for the next year.
- Recent industry indicators suggest mixed outcomes in the last month, with a further improvement in manufacturing but a softer patch for retailing and services. The agricultural sector will be weighing record commodity prices against a confidence-sapping drought in many parts of the North Island.
- Most if not all responses will have been sent before the 20 May Budget, though they're likely to have been influenced by the most widely-anticipated policy changes such as the increase in GST.

NBNZ Business Confidence

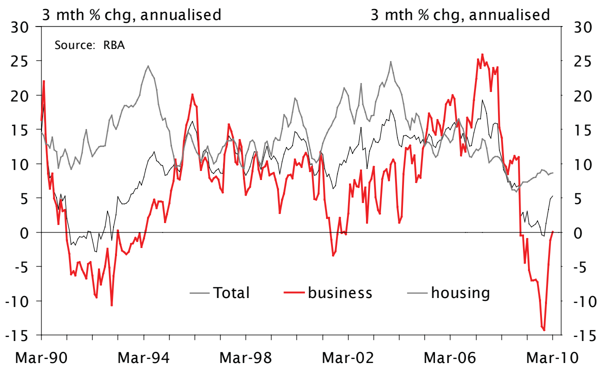


Aus Apr private credit

May 31, Last: 0.5%, WBC f/c: 0.5%, Mkt f/c: 0.5%, Range: 0.4% to 0.6%

- Private credit is forecast to expand by 0.5% in April. That would be a repeat of the March outcome and a step up from the broadly flat results outcomes throughout much of 2009.
- Business credit growth is stabilising, reflecting improved economic and financial conditions. Business credit rose by 0.1% in March, the first monthly rise since January 2009. The low point in annual growth was –8.3% in November, an even weaker result than in the 1990s recession period.
- Housing credit is going sideways at an 8.5% annualised pace. The owner-occupier segment is slowing a little under the weight of higher interest rates and the winding back of government incentives for first home buyers. This is being offset by strengthening investor credit.

Credit momentum now clearly improving

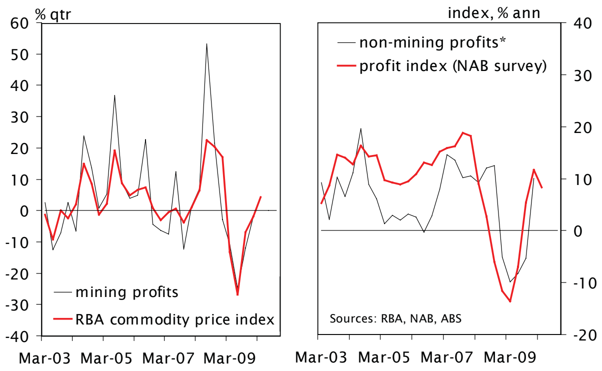


Aus Q1 company profits

May 31, Last: 2.2%, WBC f/c: 1.8%, Mkt f/c: 3.0%, Range: 1.0% to 4.5%

- Company profits are forecast to rise by 1.8% in Q1. Such an outcome would be similar to that in Q4, however, we expect a different mix.
- Mining profits will drive the Q1 result, on the back of higher commodity prices. The RBA index of non-rural commodity prices (in AUD) was up 4% in the period. That was the first quarterly rise since Dec 2008.
- Profitability in the broader economy strengthened over the last three quarters, rising by almost 12% on this measure, as the pace of activity improved. However, in Q1 there appears to have been a levelling-out of profits – as suggested by private sector business surveys.

Q1 profits: up on mining sector

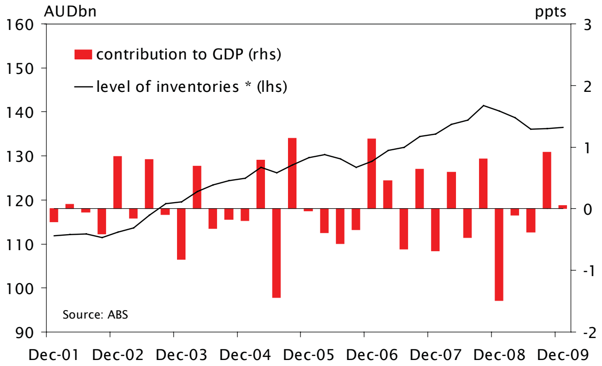


Aus Q1 inventories

Mar 31, Last: 0.2%, WBC f/c: 0.7%, Mkt f/c: 0.5%, Range: –0.1% to 1.1%

- Business non-farm inventory levels are expected to rise moderately in Q1 and add to growth, with a forecast contribution of 0.2ppts.
- *Note: a word of caution, inventory data has a tendency to surprise – with measurement problematic. The ABS estimates inventories as a residual and hence normally revises history.*
- Firms, after running down inventories late 2008 and over the first half of 2009, allowed inventory levels to rise fractionally in Q4 (+0.2%, +0.1ppts to quarterly growth). This was against the backdrop of stronger turnover and a more positive outlook.
- Firms will be looking to hold additional inventories in 2010, as the economic recovery continues and with growth expected to be around trend. Also, auto dealers were most likely in a rebuilding phase in Q1 after the sales surge in Q4 (on the back of temporary tax breaks).

Inventory rebuilding begins

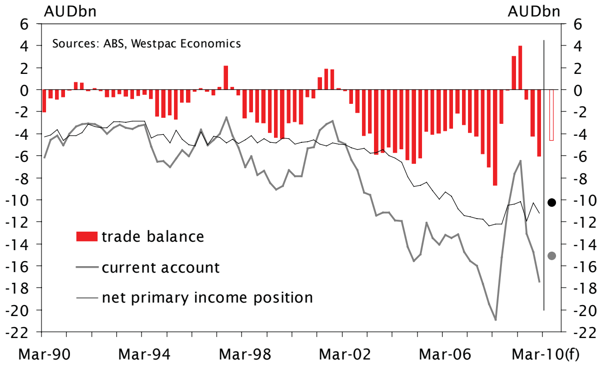


Aus Q1 current account balance, AUDbn

May 31, Last: –17.5, WBC f/c: –15.1, Mkt f/c: –16.4, Range: –18.0 to –14.5

- Q1 is expected to see a 3½% rise in the terms of trade with a near stable AUD/USD leaving import prices near flat and export prices led higher by ores, metals and energy. Combined with moderate export volumes growth (f/c 0.7%qtr) and much slower import volumes growth (f/c 1.5%qtr after 12.4% jump over 2009H2), the trade deficit narrows to $4.6bn from $6.1bn previously.
- This is expected to be reinforced by a lower net primary income deficit of $10.3bn (vs $11.2bn previously). We expect much lower net debt income outflows with falls in USD 3mth rates only partially offset by higher USD 10yr bond rates. We also expect moderately lower net equity income outflows from a reduced Australian equity market return outperformance versus the US compared to the previous quarter.

Current account balance and components

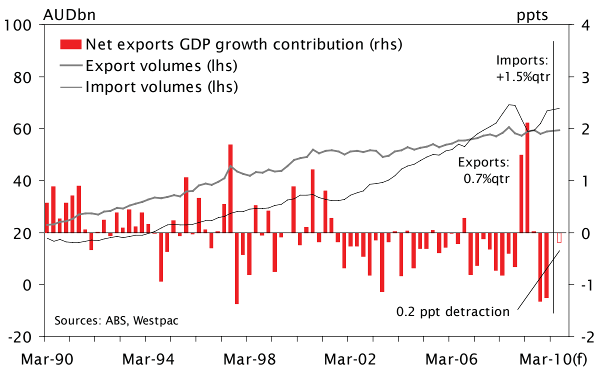


Aus Q1 net exports contribution to GDP, ppts

May 31, Last: –1.3, WBC f/c: –0.2, Mkt f/c: –0.2, Range: –0.6 to –0.2

- Export volumes stalled in 2009H2, with a 2.4%qtr fall in Q3 and a 1.7%qtr rise in Q4. Export values subsequently saw a healthy 3.8%qtr rise in Q1 but this was predominantly price-driven, with volumes estimated to have risen a moderate 0.7%qtr, with gains on both rural and non-rural goods subsets.
- With the import price deflator near steady in Q1 as the AUD/USD stabilised, import values were led higher in Q1 by volumes. We estimate consumption goods volumes rose around 2½% as inventory rebuilding continued, and capital goods volumes rose around 1¾% also helped by restocking after strong Q4 investment in vehicles due to temporary tax breaks. Overall import volumes are forecast to have gained 1.5%qtr (vs +7.7%qtr previously). With the marked step-down in import volumes growth from Q4, the net exports growth drag moderates markedly to –0.2ppts from –1.3ppts.

Export and import volumes

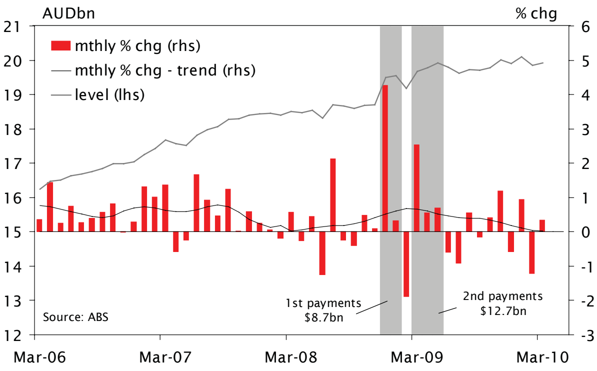


Aus Apr retail trade

Jun 1, Last: 0.3%, WBC f/c: 0.5%, Mkt f/c: 0.3%, Range: –1.3% to 1.2%

- Retail sales were lacklustre in March posting only a partial 0.3% rebound from February's 1.2% fall. Monthly sales remain choppy, most probably due to difficulties with seasonal adjustment following sharp swings during last year's fiscal payments. But even allowing for this the underlying trend is clearly weak, flattening out completely in March according to the official estimates. This implies significant declines in per capita spending and is in stark contrast to upbeat consumer sentiment reads in late 2009/early 2010.
- April is unlikely to change the overall picture. Sales are forecast to be up 0.5% – a solid outcome but not enough to raise the monthly trend. Rising employment, wealth gains and the buoyant consumer mood are being undermined by interest rate rises and a continued cautious approach to finances.

Monthly retail sales

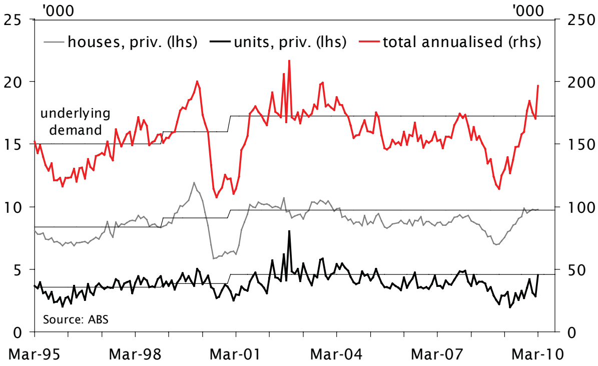


Aus Apr dwelling approvals

Jun 1, Last: 15.3%, WBC f/c: –8.0%, Mkt f/c: –5.0%, Range: –11.0% to 5.0%

- Dwelling approvals jumped 15.3%mth in March after falling 7.6% over the previous two months. The main driver was a sharp spike in 'units' that will likely reverse in April. However, other detail suggests there was also support from a backlog carried over from last year's surge in finance activity (approvals lagged finance for construction by a long way). Public sector activity is also ramping up, albeit from a low base.
- We suspect the backlog of projects has now mostly cleared. Meanwhile forward indicators show activity is starting to turn down – finance for construction has fallen 25% since October.
- Overall we expect a partial 8% pull-back in April as the spike drops out but the backlog of projects and public activity remains mildly supportive. Further declines are likely from here. How hard the landing is will depend on the RBA.

Dwelling approvals

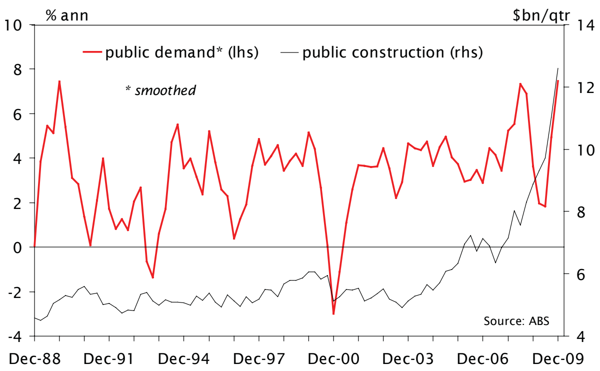


Aus Q1 public spending

Jun 1, Last: 3.9%, WBC f/c: 2.0%

- Public spending is providing a significant boost to economic activity. We're forecasting public spend to rise by a very healthy 2.0% in Q1. Q4 was reported as a 3.9% rise but more recent construction data points to a downward revision.
- The Federal Government is funding about $14bn worth of school building work over two years, as well as $6bn plus on public housing. The upshot is that building work by the public sector jumped 28% in Q1 and by 100% over the last three quarters. We expect overall public investment to rise by around 5% in Q1.
- Public consumption, three quarters of overall public demand, accelerated over the second half of 2009 to 4.5%yr. That followed a year of constraint in the face of budget pressures. We're anticipating a solid 0.8% rise in Q1.

Public demand up on construction boom

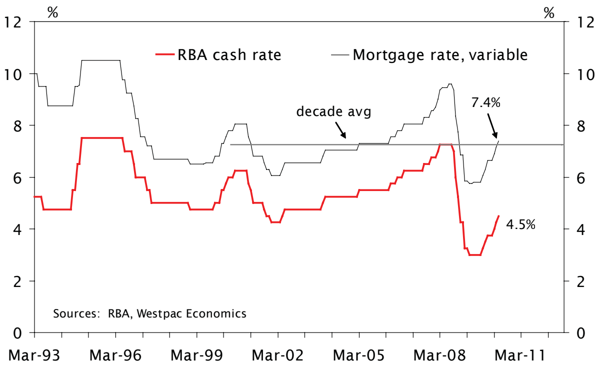


Aus RBA policy announcement

Jun 1, Last: 4.50%, WBC f/c: 4.50%. Mkt f/c: 4.50%, Range: 4.50% to 4.50%

- The Reserve Bank raised the official cash rate by a further 25bp to 4.50% in May as expected. It also gave clear indications of a pause. The Bank now assesses rates as close to "average" with the Governor's statement observing that "a significant adjustment" had been made, implying there was now scope to assess the impact over the next few months.
- The backdrop of Europe's worsening sovereign debt crisis, concerns about a slowdown in China and financial turmoil make a June rate move even less likely. However, the general stance of the Bank remains hawkish. Despite evidence of slowing in interest-rate sensitive parts of the economy, the Bank was clearly un-nerved by the higher than expected March quarter CPI result. The higher starting point for inflation and prospect of a rapidly re-igniting mining boom carries unsettling echoes of the 'difficult' policy environment of 2007-08.

RBA: lending rates back near average

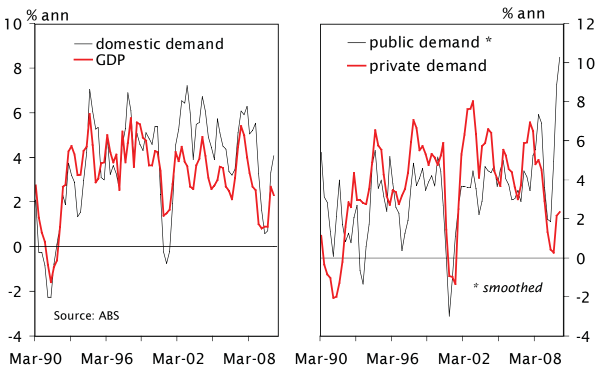


Aus Q4 GDP

Jun 3, Last: 0.9%, WBC f/c: 0.4%qtr, 2.3%yr, Mkt f/c: 0.6%, 2.6%yr, Range: 0.4% to 1.3%, 2.3%yr to 3.2%yr

- The growth pulse of the Australian economy appears to have moderated in Q1 with the winding back of stimulus.
- Business investment is the main swing factor, with temporary tax breaks triggering a bring forward of spending into Q4 and contributing to a likely 2.5% fall in Q1.
- Consumer spend was subdued, rising by a subdued 0.5%, in the face of rising interest rates. Residential building activity failed to rise as expected, with a flat result in Q1.
- Public demand is forecast to rise by 2.0%, adding 0.5ppts to growth, as the burst of public building continues.
- Net exports are expected to subtract 0.2ppts from growth, while inventories are forecast to add 0.2ppts.

Australian economic conditions

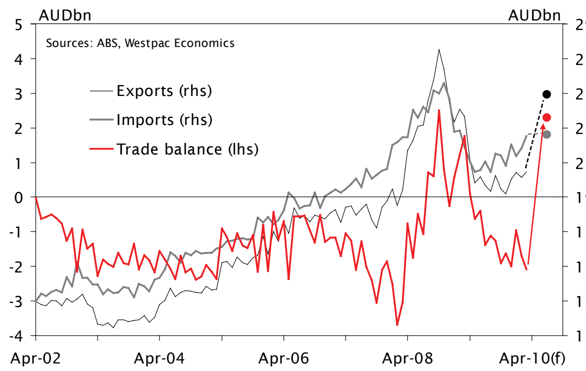


Aus Apr international trade balance, AUDbn

Jun 3, Last: –2.082, WBC f/c: +2.3, Mkt f/c: –0.8, Range: –2.0 to +2.3

- The trade deficit rose $381mn in March to $2.082bn. Exports rose 1.5% in a month of lower prices implying decent volumes growth. Imports rose 3.2% suggesting rebound in volumes from Jan/Feb softness, but leaving Q1 volumes on track for a much weaker rise after Q4's 7.7% surge.
- **The forecast surplus above is not a misprint!** April sees the surge in iron ore contract prices take effect (we estimate an AUD adjusted price surge of 84%mth). While port data implies weaker iron ore volumes, coal volumes more than offset, rebounding from March cyclone disruptions in Qld. And seasonal adjustment also boosts non-rural exports in April. We expect non-rural exports to leap 32%. Rural exports are expected flat, and a 35% bounce in volatile non-monetary gold is also supportive. Overall we expect a 22% surge in exports. Merchandise import data implies a flat result.

Surplus: iron ore price leap & strong coal vols

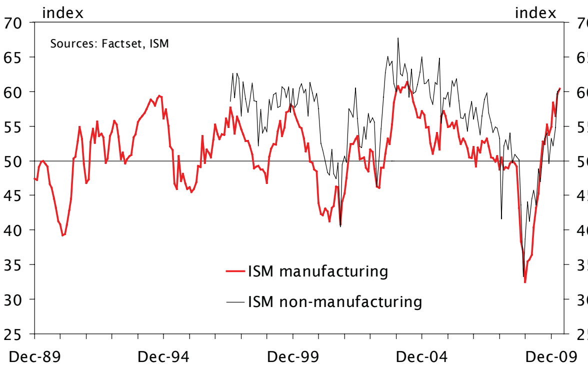


US May ISM factory and non-manufacturing reports

Jun 1, Factory Last: 60.4, WBC f/c: 58.0, Mkt f/c: 59.0
Jun 3, Non-manufacturing Last: 55.4, WBC 55.0, Mkt f/c: 55.7

- The factory ISM jumped to a new cycle high at 60.4 in Apr, but since then the Fed's May regional factory surveys have mostly turned lower: NY/Richmond clearly so; Philly rose but the component detail (better guide to the ISM composite headline) showed orders and jobs pulling back sharply. So we expect a modest ISM factory decline in May, to a still solid 58.0, but enough of a fall to keep us alert for a more significant manufacturing slowdown later in 2010.
- The services ISM held steady at its cycle high in April as the factory recovery spread to the economy's tertiary sectors. But economic growth has slowed since end 2009 and we expect Q2 to see some pull-back in the services/construction sectors, as fiscal stimulus fades. Early confirmation of this view would be a lower May non-man ISM; we expect slippage to 55.0.

US ISMs surge

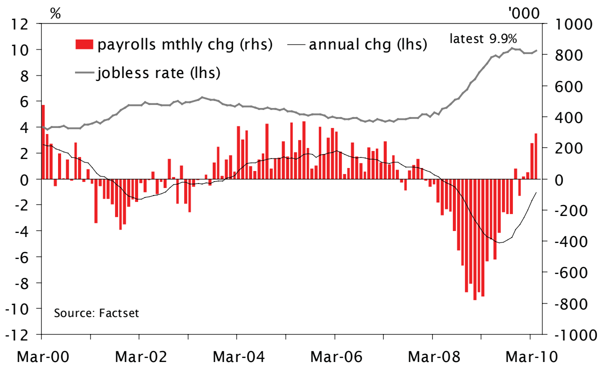


US May non farm payrolls to rise by 520k

Jun 5, Payroll employment: Last: 290k, WBC f/c: 520k, Mkt f/c: 508k

- April payrolls rose 290k. The detail impressed: excluding just 66k temporary 2010 Census workers and other public hires/fires, private payrolls rose 231k, their fourth straight rise. The last time we saw back to back payrolls gains of 200k+ was in early 2006 (though this time the weather bounce in March and Census workers flattered). Back revisions added 122k jobs to Feb-Mar and switched Feb from a small decline to modest positive.
- In May, our forecast is for slower 120k private sector jobs growth, based on moderating GDP growth since late 2009; a still soft Apr small business plan to hire reading of –1 (which means small businesses are still not hiring); given that initial jobless claims have ceased falling; and lower jobs readings in some regional surveys (eg Philly and Richmond Fed). Based on 2000 Census hiring patterns, May could see 400k temporary 2010 Census hires, making a 520k total payrolls gain.

US jobs market: hiring restarts

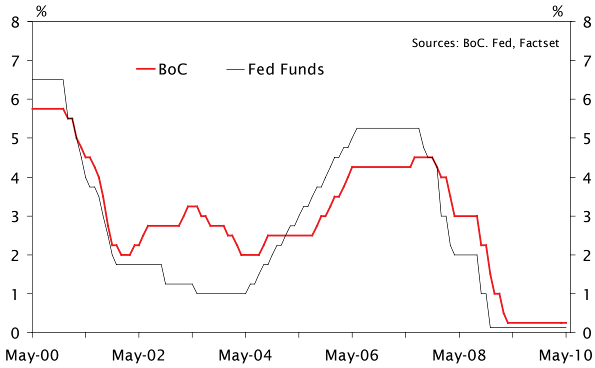


Bank of Canada to begin removing monetary stimulus

Jun 1, BoC rate: Last: 0.25%, WBC f/c: 0.50%, Mkt f/c: 0.50%

- In its last statement the BoC stated that an exceptional degree of stimulus was required "during a period of very weak economic conditions and major downside risks to the global and Canadian economies. With recent improvements in the economic outlook, the need for such extraordinary policy is now passing, and it is appropriate to begin to lessen the degree of monetary stimulus".
- Since then, GDP growth looks to have accelerated beyond Q4's 5% annualised (Q1 data due 31/5), employment has soared and core inflation has risen closer to the 1-3% target mid point. The housing market looks solid and retail sales have picked up.
- Recent European financial market turmoil does not offset the need for the BoC to at least start easing back on that stimulus. Modest 25bp steps are likely at first, though the risk is skewed towards a 50bp first hike, rather than 0bp, on June 1.

Bank of Canada



Key Data and Events

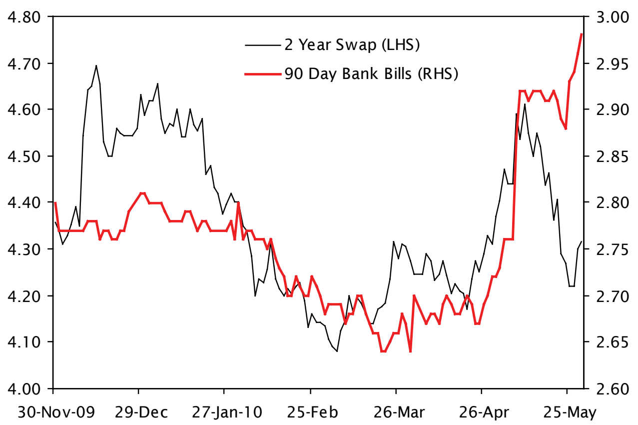
		Last	Market Median	Westpac Forecast	Comments
Mon 31 May					
NZ	May NBNZ Business Confidence	49.5%	–	–	Confidence to remain high although drought concerns may weigh.
Aus	Apr Private Credit	0.5%	0.5%	0.5%	Strengthened from flat patch late '09 as business credit stabilises.
	Q1 Company Profits	2.2%	3.0%	1.8%	Mining up on higher prices, but broader economy slower growth.
	Q1 Inventories, ppts cont'	0.1	–	0.2	F'cast to rise 0.7% & add 0.2ppts to growth (see text box).
	Q1 Current Account Balance, AUDbn	-17.5	-16.4	-15.1	Lower trade deficit of $4.6bn with 3½% ToT rise; lower NID at $10.3bn.
	Q1 Net Export Contrib to GDP, ppts	-1.3	-0.2	-0.2	X vols +0.7%; better cont'n driven by slower M vols (1.5% v 7.7% prev).
	May TD-MI Inflation Gauge	0.4%	–	–	0.94% Apr 3mth pace vs Feb's 1.10% = only slightly softer Q2 CPI pace.
US	Memorial Day	–	–	–	Markets closed
	Fedspeak	–	–	–	Bernanke on changing role of central banks. Plosser also (BoK conf).
Jpn	Apr Industrial Production	1.2%	2.5%	–	Impetus diminishing as regional recovery begins to mature.
	Apr Labour Earnings %yr	1.0%	0.8%	–	Some stability has returned to job market, series should grind higher.
	Apr Housing Starts %yr	-2.4%	6.6%	–	Catastrophic decline in activity seems to finally be slowing.
Eur	Apr Money Supply M3 %yr	-0.1%	-0.3%	–	Contracting M3 and credit, core inflation closer to 0% than 2%.
	May Business Climate Indicator	0.23	0.20	-0.10	The year long recovery in both these confidence indicators has yet to
	May Economic Confidence	100.6	100.6	98.5	falter, however surveys available for May so far suggest downside risk.
	May CPI Flash %yr	1.6%	1.7%	1.5%	Energy price falls offset to some extent by weaker euro.
UK	Late May Bank Holiday	–	–	–	Markets closed
Can	Mar GDP	0.3%	0.5%	–	Market is expecting solid outcomes both for March and the whole qtr,
	Q1 GDP % annualised	5.0%	5.9%	–	consistent with view zero rate policy no longer appropriate.
Tue 1 Jun					
Aus	Jun RBA Policy Meeting	4.50%	4.50%	4.50%	Signalled pause in May; underscored by global financial instability.
	May AiG PMI	59.8	–	–	+9.3ppts in April – reading looks overly strong.
	Apr Retail Sales	0.3%	0.3%	0.5%	Still flat in trend terms; implies declining per capita sales.
	Apr Dwelling Approvals	15.3%	-5.0%	-8.0%	Partial unwind of units spike in March; support from project backlog.
	Q1 Public Spending	3.9%	–	2.0%	Public investment up a fcst 5% on Fed Govt bust of building.
US	May ISM Manufacturing	60.4	59.0	58.0	Still strong, but are cracks starting to appear in the industrial recovery?
	Apr Construction Spending	0.2%	0.1%	0.4%	Gain driven by tax credit impact on housing activity.
	Fedspeak	–	–	–	Evans at BoK conference.
Eur	Apr Unemployment Rate %	10.0%	10.0%	10.0%	German rate lower but rising elsewhere.
Ger	May Unemployment Change	-68k	-18k	–	Data hard to forecast given short work scheme distortion.
UK	May PMI Factory	58.0	57.9	57.8	Sterling decline providing some benefit, but concerns about Europe.
	May House Prices %yr	6.6%	7.4%	–	Tentative date for Halifax series (one of the most closely watched).
Can	BoC Rate Decision	0.25%	0.50%	0.50%	BoC to begin edging away from near zero rate policy.
Wed 2 Jun					
NZ	May ANZ Commodity Price Index	4.9%	–	–	Expected to rise further.
Aus	Q1 GDP	0.9%	0.6%	0.4%	Moderation in growth as fiscal & monetary stimulus wind back. 2.3%yr
US	May Corporate Layoff Announcements	38k	–	–	Job market still improving on this measure.
	Apr Pending Home Sales	5.3%	5.0%	6.0%	Last chance for buyers to take advantage of tax credit.
	May Auto Sales mn annualised	11.2	11.4	11.2	Auto sales uptrend since end of "clunkers" scheme might be fading.
Eur	Apr Producer Prices %yr	0.9%	2.6%	–	German data point to further rise in annual pace.
UK	Apr Net Consumer Credit £bn	0.3	0.3	–	Barely growing still.
	Apr Net Mortgage Lending £bn	0.3	0.6	–	Also just ticking over; just 49k new mortgages approved in March.
	May PMI Construction	58.2	58.0	58.0	Will construction sector respondents' recent surging optimism last?
Thu 3 Jun					
Aus	Apr Int'l Trade Balance, AUDbn	-2.08	-0.8	+2.3	M flat; X surge 22% with iron ore price leap & strong coal vols = surplus!
US	May ADP Private Payrolls change	32k	65k	35k	Pace of improvement in jobs market abating.
	Q1 Productivity Revision	3.6%a	3.4%	3.4%	GDP growth was revised a little lower.
	Q1 Unit Labour Costs Revision	-1.6%a	-1.5%	-1.6%	Slower productivity growth means a smaller fall in ULC.
	Initial Jobless Claims w/e 29/5	460k	453k	460k	Claims downtrend seems to have stalled.
	Apr Factory Orders	1.1%	1.7%	2.5%	Durables component known up nearly 3%.
	May ISM Non-Manufacturing	55.4	55.7	55.0	Business stating to worry about Europe/equities sell-off?
	Fedspeak	–	–	–	Lockhart, Rosengren and Hoenig.
Jpn	Q1 Capital Spending Survey %yr	-17.3%	-9.6%	–	Source data for second estimate of GDP.
Eur	Apr Retail Sales	flat	0.1%	–	German data due 28/5 will offer some guidance.
UK	May PMI Services	55.3	55.7	55.0	Concerns about Europe but some offset from election result?
Fri 4 Jun					
NZ	Q1 Wholesale Trade Survey	1.9%	–	–	A balance between weak domestic sales and strong exports.
US	May Non-farm Payrolls	290k	508k	520k	Census hiring to date has surprised to downside but we expect a 400k
	May Private Non-farm Payrolls	231k	180k	120k	contribution in May, though we think March-April's private payrolls
	May Jobless Rate	9.9%	9.8%	9.6%	growth pace won't be maintained. Jobless rate to fall due to Census.
Eur	Q1 GDP Revision	0.2%a	0.2%	0.2%	More detail on the components of growth and possible back revisions.
Can	May Employment change	109k	15k	-15k	Trend still very positive despite our forecast fall.
	Apr Building Permits	12.2%	-2.0%	–	Both res and non-res very strong in March.
	May Ivey PMI nsa	58.7	60.35	61.0	Tendency to rise in May for seasonal reasons.
G20	Finance Ministers/CB Governors' Meeting	–	–	–	In Busan, South Korea!

New Zealand Economic and Financial Forecasts

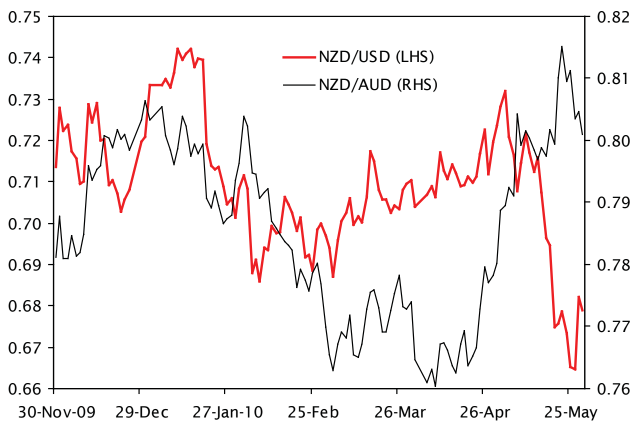
Economic Growth Forecasts	March years				Calendar years			
% change	2009	2010f	2011f	2012f	2009	2010f	2011f	2012f
GDP (Production) ann avg	-1.4	-0.3	4.1	4.2	-1.6	3.4	4.4	3.4
Employment	0.7	-0.1	2.1	1.8	-2.4	2.7	1.8	1.3
Unemployment Rate % s.a.	5.1	6.0	5.3	5.0	7.1	5.5	5.0	4.9
CPI	3.0	2.0	5.1	2.9	2.0	4.9	2.8	2.9
Current Account Balance % of GDP	-7.9	-2.6	-3.3	-4.4	-2.9	-3.0	-4.4	-4.4

Financial Forecasts	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Cash	2.75	3.25	3.75	4.25	4.75	5.25	5.75
90 Day bill	3.20	3.70	4.20	4.70	5.20	5.70	6.10
2 Year Swap	4.50	4.80	5.20	5.50	5.90	6.20	6.40
5 Year Swap	5.50	5.70	5.90	6.10	6.30	6.50	6.60
10 Year Bond	6.00	6.00	6.10	6.20	6.30	6.30	6.40
NZD/USD	0.69	0.72	0.74	0.76	0.75	0.74	0.73
NZD/AUD	0.81	0.82	0.82	0.83	0.83	0.83	0.84
NZD/JPY	61.4	65.5	70.3	74.5	76.5	78.4	79.6
NZD/EUR	0.56	0.58	0.60	0.63	0.64	0.64	0.63
NZD/GBP	0.48	0.50	0.51	0.53	0.53	0.53	0.52
TWI	66.5	69.1	71.2	73.8	74.0	74.0	73.9

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 31 May 2010

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.74%	2.70%	2.60%
60 Days	2.88%	2.83%	2.66%
90 Days	2.99%	2.91%	2.73%
2 Year Swap	4.29%	4.44%	4.41%
5 Year Swap	5.17%	5.32%	5.28%

NZ foreign currency midrates as at Monday 31 May 2010

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.6775	0.6964	0.7282
NZD/EUR	0.5518	0.5622	0.5466
NZD/GBP	0.4689	0.4810	0.4768
NZD/JPY	61.610	64.440	68.340
NZD/AUD	0.8019	0.7975	0.7888
TWI	65.800	67.170	67.890

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2005	2006	2007	2008	2009	2010f	2011f
Australia							
Real GDP % yr	2.8	2.9	4.0	2.4	1.3	3.0	3.8
CPI inflation % annual	2.8	3.3	3.0	3.7	2.1	3.3	3.1
Unemployment %	5.1	4.8	4.4	4.2	5.6	5.1	4.8
Current Account % GDP	-5.8	-5.3	-6.3	-4.4	-4.1	-4.0	-2.6
United States							
Real GDP %yr	3.1	2.7	2.1	0.4	-2.4	2.4	3.0
Consumer Prices %yr	3.4	3.2	2.9	3.8	-0.4	1.3	2.4
Unemployment Rate %	5.1	4.6	5.8	5.8	9.3	9.5	9.2
Current Account %GDP	-6.1	-6.0	-5.3	-4.9	-2.9	-3.1	-2.3
Japan							
Real GDP %yr	1.9	2.8	2.2	-1.5	-5.8	2.3	1.8
Consumer Prices %yr	-0.3	0.2	0.1	1.4	-1.3	-1.1	-0.2
Unemployment Rate %	4.4	4.1	3.9	4.0	5.1	4.8	4.5
Current Account %GDP	3.6	3.9	4.8	3.2	2.8	4.1	4.3
Euroland							
Real GDP %yr	1.8	3.1	2.8	0.5	-4.0	0.6	1.3
Consumer Prices %yr	2.5	2.0	3.1	1.6	0.9	1.0	1.2
Unemployment Rate %	8.8	7.9	7.3	7.8	10.0	10.5	10.5
Current Account %GDP	-0.2	-0.1	0.1	-1.1	-1.0	-0.5	0.0
United Kingdom							
Real GDP %yr	2.2	2.9	2.6	0.5	-4.9	0.5	1.3
Consumer Prices %yr	2.1	3.0	2.1	3.5	2.9	2.0	1.5
Unemployment Rate %	2.8	3.0	2.5	3.1	5.0	5.0	5.0
Current Account %GDP	-2.6	-3.3	-2.7	-1.6	-2.4	-2.0	-1.5

Forecasts finalised 7 May 2010

Interest Rate Forecasts	Latest (May 31)	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Australia						
Cash	4.50	4.50	4.75	5.00	5.00	5.25
90 Day Bill	4.88	4.90	5.00	5.20	5.20	5.50
10 Year Bond	5.42	5.60	5.70	5.90	5.90	6.00
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.50
US 10 Year Bond	3.29	3.40	3.45	3.70	4.00	4.50
ECB Repo Rate	1.00	1.00	1.00	1.00	1.25	1.50

Exchange Rate Forecasts	Latest (May 31)	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
AUD/USD	0.8449	0.85	0.88	0.90	0.92	0.90
USD/JPY	90.93	89	91	95	98	102
EUR/USD	1.2278	1.24	1.24	1.24	1.20	1.18
AUD/NZD	1.2471	1.23	1.22	1.22	1.21	1.20