

WHEN DOVES CRY

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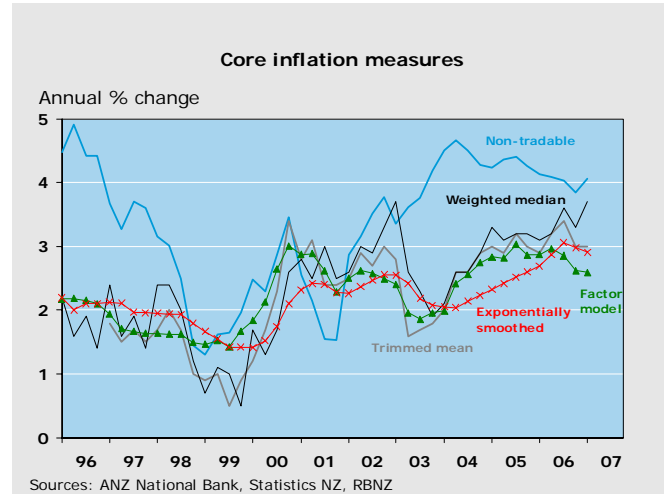
- The gains to New Zealand from rising commodity prices and through our terms of trade have been partly eroded by weak productivity growth and rising unit labour costs relative to our trading partners. The NZD will not stay high indefinitely in such an environment.

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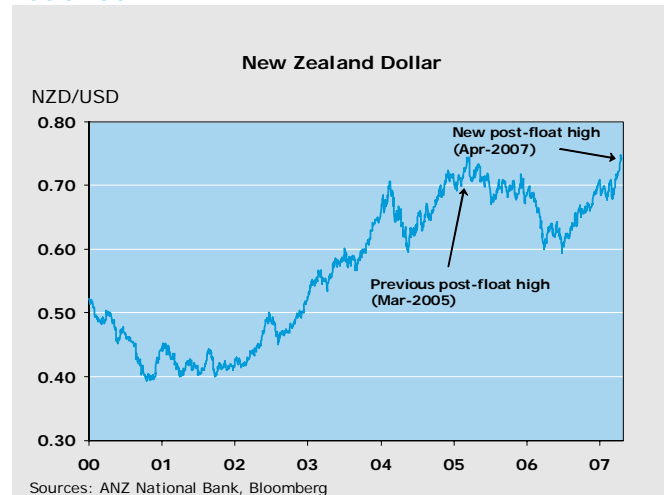
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Core inflation measures still elevated.



A new post-float high for the NZD reached.



ECONOMIC OVERVIEW

The tenor of data remains painful for the Reserve Bank. While financial conditions have tightened considerably, rising non-tradable inflation and deteriorating core inflation trends look to have eliminated the Reserve Bank's option of watching and waiting.

What's ahead...

- NZ March Credit Card statistics (Tuesday 1500 NZST). A small technical pull-back is expected.
- The RBNZ's *OCR Review* (Thursday 0900 NZST). We expect the Bank to raise the OCR by 25 basis points to 7.75 percent.
- NZ March Overseas Merchandise Trade (Thursday 1045 NZST). We expect the monthly trade balance to record a small surplus.
- National Bank *Business Outlook* (Thursday 1500 NZST).
- NZ March Credit Growth (Friday 1500 NZST). Another increase in the order of 1 percent expected.

What's the view

The Reserve Bank now looks to be backed into a corner. Last week's rising path for non-tradable inflation and deteriorating core measures has accentuated their worst fears: resurgent domestic demand is placing additional pressure on inflation, at a time resource pressures are already intense. Of particular concern was the broad based nature of the price increases. Construction costs remain elevated and the prices for many services are rising.

The Reserve Bank has no scope to absorb a further deterioration in medium-term inflation trends. Their March *Monetary Policy Statement* flagged inflation sitting around 2.7 percent. It was about as close to the top of the 1 to 3 percent policy band as you can be without actively saying there is an inflation problem.

The market is currently divided over whether the Reserve Bank moves in April or waits until June to assess the impact of the material tightening in financial conditions. Tighter financial conditions (via increases in wholesale and fixed lending rates and a NZD at post-float highs) are strong factors urging caution. We believe recent rises in fixed lending rates courtesy of the credit channel of monetary policy should be a material influence on their deliberations. Our strong suspicion is that this economy is far closer to faltering than many believe.

However, the deterioration in domestic inflation indicators has eliminated the option of waiting. The Reserve Bank has little choice but to act despite the potential for calamitous consequences. The greater the inflation pressure, the larger the growth sacrifice required. What we are seeing on the

inflation front at present is so disconcerting that the growth sacrifice needs to be large. Financial conditions are now signalling that the economy is headed for 1 percent growth. Brace yourselves.

After giving repeated warnings about housing and domestic related exuberance, the Reserve Bank can hardly be blamed for the bitter medicine they look set to dispense. We expect the Reserve Bank to hike interest rates by 25 basis points this week, taking the OCR to 7.75 percent. The door will remain open to a further move.

The combination of a strong March quarter employment report (pent-up demand from two successive declines) and an expansionary *Budget* will keep the market attuned to a further move. Whether this is averted is likely to be heavily influenced by a select batch of monthly data including confidence, retail sales and housing market activity. The Reserve Bank will need to see clear signs of moderation to avoid a second increase in 2007.

The inflationary undercurrent and tightness in financial conditions spell trouble for growth prospects, earnings and asset valuations. Sure the economy is being supported by high commodity prices, infrastructure investment and the Government's considerable war-chest. But financial conditions are now approaching historical extremes. The Reserve Bank will engineer its desire of slowing growth. After 7 years of solid growth – the strongest expansion since the 1960's – a slight hiccup is to be expected. As noted last week, better a hard landing now than a crash landing later, which is a likely prospect if inflation pressures are left unchecked.

If there is a positive spin on the economic adjustment that New Zealand will eventually undertake, it will be the by-product. This includes consolidation, a stronger focus on costs and changes in a number of policy areas. Ultimately it takes a little bit of a squeeze before change is adopted. Such changes reside at the heart of driving an improvement in productivity growth – a necessary ingredient before we will see a sustainable up-tick in prospects.

Strong commodity prices are delivering a big jump in living standards. Get the productivity story right as well and our children will inherit a rich land.

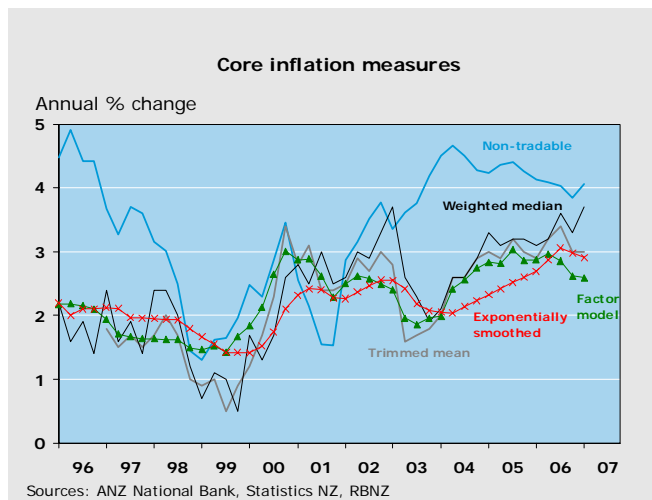
Recent data...

- **NZ Q1 CPI.** The headline CPI increased by 0.5 percent, taking annual inflation to 2.5 percent. Core inflation measures accelerated.
- **REINZ housing data (Mar).** Seasonally adjusted house sales fell 1.0 percent, days to sell fell to 28 days and the median house price increased to \$343,500.
- **NZ External Migration (Mar).** Annual net migration inflows eased to 12,080, from 13,151.

OCR PREVIEW (DUE 9:00AM 26 APRIL)

We expect the RBNZ to raise the OCR by 25 basis points, taking it to 7.75 percent at their April Review, and the talk to remain tough.

The run of data since the March MPS is becoming painful. Indicators of domestic demand, such as retail sales and housing market data, show continued acceleration in early 2007. The strong rebound in momentum at the end of last year is being sustained into early this year, and judging by the forward activity indicators of the NZIER's QSBO (which was surveyed after the March OCR hike), this momentum looks set to continue into mid-this year.



More worryingly, risks to medium-term inflation have increased:

- **Core inflation has picked up.** Although headline CPI only increased by 0.5 percent in Q1, the spike up in non-tradable inflation to 1.2 percent in the quarter taking the annual rate above 4 percent would have caused alarm at the RBNZ. Other measures of core inflation that the RBNZ monitor similarly remain close to the top of the policy target band.
- **Inflation undercurrent building.** The broad based nature of price increases in the Q1 CPI report highlight a generalised undercurrent of inflation pressure seeping into consumer prices. It is no longer just a housing related phenomenon. The jump in pricing intentions in the QSBO to a 6½ year high further alludes to the inflationary pressure still in the pipeline.
- **The economy is showing solid momentum at a time resources are stretched and productivity is low.** The March *Statement* flagged inflation pressure remaining at 2.7 percent right out until 2009 courtesy of solid momentum. This is as close to the top of the 1 to 3 percent policy band inflation could be without the Bank flagging an inflation problem.

There is no capacity to absorb further inflation pressure.

Two factors could yet sway the Governor from pulling the trigger next week:

- **The currency**, which is now tracking 5 percent above the Reserve Bank's March projections.
- **Increases in fixed mortgage rates** that have effectively delivered the equivalent of two 25 basis point hikes via the credit channel of monetary policy. The pipeline tightening effect currently in the system exceeds what was projected at the RBNZ's March MPS.

These factors are material and imply caution, particularly with the housing market in uncharted territory in terms of the debt burden.

Yet we believe the balance of risks remains towards a hike, and largely for two reasons:

- **The inflationary under-current** looks to have eliminated the option of waiting.
- **Waiting until June goes against the Policy Targets Agreement**, with clause 4(b) noting that the Reserve Bank shall seek to avoid unnecessary instability in output, interest rates and the exchange rate.

For the export sector, the medicine being dished out by the Reserve Bank may seem harsh, with a stronger NZD a logical by-product. Yet a prerequisite to a lower currency is softening domestic demand, which looks to require tighter policy. A more cautious "spoonful of medicine" approach where the market remains wary of the risk of higher rates is likely to see the currency remain elevated for longer.

Expect the language in the statement to still be hawkish. Once a tightening cycle begins – even if late cycle in nature – the threshold to a follow up move is lower. We expect the combination of a strong Q1 employment report (due 10 May) and expansionary 2007 *Budget* to keep the market biased towards a further move.

Financial market implications

At the time of writing the market was pricing in close to a 65 percent chance of a hike this week. If the RBNZ hikes and delivers a hawkish statement as we expect, the NZD will knock on 75 cents against the USD (if it hasn't already by then) and the rates market will move to price in a reasonable chance of a June or July move. A no change decision might see the NZD come off, but remain well supported as the market will continue to look for a hike in June or July.

INTEREST RATE STRATEGY

With no further local data, market pricing will hold at 65:35 for a hike heading into the *OCR Review*. Attention will also be focused further out the curve, with a reasonable probability of another hike to be priced in if the RBNZ hikes and continues to talk tough.

Market themes...

- Lack of receiving interest with bias still towards payside pressure on the back of strong data.
- Market to sit on the sidelines ahead of the *OCR Review*.
- The rates market will be in consolidation mode with tight ranges and light volumes heading into Thursday.
- Offshore focus will be on Australian and Japanese CPI data.

Outlook...

The unfriendly dataflow for the RBNZ continued last week. Headline Q1 CPI may have come in slightly weaker than market expectations, but the deterioration in the core inflation measures may have been too much for the RBNZ to ignore. Friday's strong REINZ housing market report only added to a bad fortnight of dataflow for the RBNZ. We have now changed our call to a rate hike at the April *OCR Review*. Market pricing is for a 65 percent chance for April, with a full hike effectively priced in by June. Focus will be on further out the curve. A hike and hawkish talk from the RBNZ will see the market pricing in a reasonable chance of another move in June or July.

It is a clear run to the April Review, with only credit card data for March due on Tuesday. Even a pullback there is unlikely to sway market pricing or the RBNZ. Increased volatility at the end of last week due to inflation concerns in China will have no bearing on the RBNZ's decision. The RBNZ was unmoved by the global market correction at the end of February. In fact, any further unwinding of the carry trade, which will see the NZD sell off, will make it easier for the RBNZ to hike.

Global inflation remains a key theme for the rates market. Strong Chinese economic growth and inflation pressures there have raised concerns of higher Chinese interest rates. Markets are fully expecting another interest rate hike from the BoE after UK inflation reached 3.1 percent. Australian and Japanese CPI data due this week will likely keep the pressure on for interest rate increases from the RBA and possibly even the BoJ sooner rather than later. The BoJ is largely expected to leave its target rate unchanged this Friday, but it's semi-annual economic outlook report will be key.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↑	Dataflow too strong to ignore. RBNZ set to hike.
NZ data	↔/↑	Domestic demand and housing market show no signs of moderation. Core inflation measures have deteriorated.
Fed Funds/front end	↔	Weaker March US core CPI outturn provided some comfort, but inflation risks still to the upside.
RBA	↑	Strong run of Aussie data sees good chance of the RBA hiking sooner rather than later.
US 10 year	↔/↑	US bond market caught between growth and inflation bind. Inflation fear to dominate in the end.
NZ swap spreads	↑	Spreads to widen after last week's contraction.
Flow	↑	Rallies will be limited as mortgage books shed risk ahead of Thursday's decision.
Technicals	↔	The technical picture is clouded somewhat with currency concerns.

Borrowing strategies we recommend at present

With a 65 percent probability of a rate hike priced into the New Zealand yield curve, borrowers on floating rates run the risk of rates moving 10 - 15 points higher after the *OCR Review* on Thursday, as the market digests the decision and the tone of the accompanying press release. With the whole yield curve substantially higher than the 10 year average we advise fixing out to 3 years, while looking at optionality to hedge any potential draw downs.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 26-Apr-07	68	63
Thu 7-Jun-07	92	104
Thu 26-Jul-07	104	122
Thu 13-Sep-07	104	126
Thu 25-Oct-07	104	126
Thu 6-Dec-07	100	126
Thu 24-Jan-08	84	126

Trading themes we favour at present

We continue to favour being short the 1-2 year vs receiving the belly of the swaps curve.

OH DEAR

The detail to the March quarter inflation figures show that inflation is becoming broader based, and more than a purely housing phenomenon.

The 1.2 percent increase in non-tradable CPI last week was much stronger than the 0.9 percent rise that we, and the RBNZ, were expecting. And you can't just blame it on the chooks. Poultry prices did rise by a remarkable 15.2 percent in the quarter, but it was not a major contributor.

When we trawled through the details of the CPI report relative to our expectations, most of the price changes in the selected items which we monitor closely came in largely in line. Construction costs, petrol prices, airfares, food prices – all those items with large weightings in the CPI that tend to throw it around – did not show material surprises either way. Yet we still had a large upside surprise on the overall non-tradable increase. Digging further, it became apparent that the cause of the surprise was not due to a single or few items recording unusual price increases (chooks aside). Rather, it was the upward creep in the price of most items, which collectively aggregated into a larger increase in non-tradable inflation. The small stuff was the real killer and portends of a clear inflationary under-current.

Moreover:

- **Inflation is broadening beyond the housing market.** Non-tradable inflation increased by 1.2 percent in the March quarter. If the purchase of new housing had been excluded (which has historically been making large contributions to the quarterly increase), there would still have been a 1.2 percent increase. Non-tradable ex-housing inflation is a proxy gauge for inflation expectations, and its rise will not have gone unnoticed at the Reserve Bank.

- **Services sector inflation is accelerating,** and is typically a unit labour cost phenomenon. We note clothing services prices are up 6.5 percent, property maintenances services up 6.6 percent, dental services up 7.2 percent, and the repair and hire of household appliances up 11.9 percent. With unit labour costs still rising, there looks to be more around the corner.
- **The number of CPI classes rising by more than 5 percent has risen.** The percentage of classes with annual inflation over 5 percent has been trending upwards. The last time it reached this level was back in 2001 when the NZD had earlier fallen to below US 40 cents leading to a large increase in tradable inflation. The opposite is currently the case with the NZD recently hitting a post-float high. Domestic inflation is the culprit this time.

Admittedly it is not all one way. The high NZD has enabled the importation of cheaper goods, plus it is also offsetting a still high world crude oil price and has kept petrol prices well below their peak from last year. Some aggressive discounting by retailers has also had an impact.

Implications

The composition to the March quarter inflation report will have the Reserve Bank on notice. More generalised inflation in areas such as non-tradable ex-housing raises the risk of elevated inflation expectations feeding into wage negotiations. The housing market can no longer be the scapegoat for high inflation. Services prices are sticky and less responsive to the economic cycle.

While we are inflation doves and proponents of the demand-pull inflation paradigm, even we find the current inflationary under-currents worrying. Hence the title to this week's market focus – *"When Doves Cry"*. The magnitude of the tightening in financial conditions over the past six weeks is massive. But facing such an inflation theme, the bias remains towards more this week.

Gauge	Inflation rate				Direction	Comment
	Jun 06 quarter	Sep 06 quarter	Dec 06 quarter	Mar 07 quarter		
Headline	4.0	3.5	2.6	2.5	↓	Lower tradables dragging it lower
- ex petrol	3.1	3.1	3.0	3.0	↔	Petrol has led to increased volatility
- ex food, petrol & govt charges	2.8	2.7	2.5	2.7	↑	A common measure of core inflation still elevated
Tradable	3.8	3.0	1.2	0.9	↓	High NZD = cheaper imports
Non-tradable	4.1	4.0	3.8	4.1	↑	Heading the wrong way
Non-tradable less housing	3.7	3.6	3.4	3.6	↑	Its not just a housing phenomenon
Housing ex energy	4.6	4.9	4.4	4.7	↑	Still elevated
Housing and household utilities	4.9	5.4	5.1	5.3	↑	The resilience of the housing market still providing inflation pressure
Goods	3.5	3.3	2.0	1.6	↓	The high NZD weighing
Services	4.6	3.8	3.6	4.2	↑	Is cost push inflation back?
Trimmed mean 10%	3.2	3.4	3.0	3.0	↔	Stable but too high
Weighted median	3.2	3.6	3.3	3.7	↑	Highest since 2002

CURRENCY STRATEGY

The world still wants to see a weaker USD – although we are more circumspect. Locally, Australian CPI and the RBNZ OCR Review are in focus and suggest a continued bias up.

Market themes...

- Rate hike expectations boost carry-related demand for NZD.
- Inflation in developed world will require higher rates globally.

Outlook...

The concern about the US subprime mortgage market has been one of the factors weighing on the USD over the past month or two. The reporting season is underway in the US and a notable feature is that banks' earnings are beating expectations. This is boosting the Dow, and raising questions about the seriousness of the subprime problem.

With some question marks surrounding the extent of difficulty in the subprime market and the potential for this to flow through to the economy more generally, there is a growing belief that the US economy does not look as bad as recent activity data suggests. At the same time, the inflation outlook remains a concern. With it looking less likely that US interest rates will be cut (particularly with the Dow so high), sentiment towards the USD may turn around over the next month or so. We are wary of betting aggressively against a weaker greenback. The NZ equity market has been more adept at picking the economic cycle here, and we suspect the same dynamic will pan out in the US.

In the meantime, it seems that the world wants a weaker USD. Speculative short positioning against the USD increased further in the week to 10 April (according to CFTC data released on Friday). The total speculative short positioning against the USD widened to US\$20.95 billion (from US\$19 billion the previous week). Net long positions in the euro and NZD are at record highs.

This week's Australian and Japanese CPI, US GDP, and the BoJ interest rate decision will be significant. Locally, the Reserve Bank's interest rate decision on Thursday will be key. There is a growing consensus that the Bank will raise the OCR to 7.75 percent – the question is how hawkish they will be. With expectations that the talk will remain tough, the NZD is likely to outperform this week. Every man and his dog is expecting a strong Australian CPI result this week, increasing the potential for the data to disappoint. Couple this with talk of turning off the irrigation taps in the Murray River Basin and the risk to the NZD/AUD is firmly to the upside.

Technically, NZD/USD of 0.7500 and AUD/JPY of 100 are massive levels (with the NZD/JPY likely to

follow on the coat-tails of movements in the latter). Both currency pairs have tried lower after testing these levels recently, but the fact that they are re-testing suggests that sell offs will continue to be shallow until a break to the topside occurs.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Above the 0.85-0.88 zone. Aussie drought may push this up short-term
Yield	↔	Evenly balanced with both central banks the focus.
Commodities	↔	Still supportive of both.
Partial indicators	↑	Both showing strong data last week. Keep an eye on Aussie CPI.
Technicals	↔	Break higher has occurred. We see a test of 90 cents is imminent.
Sentiment	↔	Sentiment universally against USD, with NZD and AUD main benefactors. But US data is improving.
Other	↑	Murray Basin will get more press.
On balance	↔	RBNZ and RBA both in play. 0.88-0.90 range.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.62-0.65 given a structural shift in commodity prices.
Fair value – short-term	↓	Starting to look expensive even on a commodity basis.
Yield	↔	Yield gap widened but fully reflected at these levels.
Commodities	↔	Higher commodity prices remain supportive but largely reflected already.
Risk aversion	↑	Risk appetites appear to have returned. Dow at new highs.
Partial indicators	↔	NZ's are robust. US data may just be turning positive with subprime woes behind them.
Technicals	↔/↑	Sideways to up – trend is your friend. 0.7500 to break this week.
AUD	↔/↑	Up – equity market strength and good fundamentals.
Sentiment	↑	Positive by default.
Other	↔	Players looking for a reason to sell but none apparent.
On balance	↔/↑	Argue it any way you like, NZD dips are shallow and short-lived.

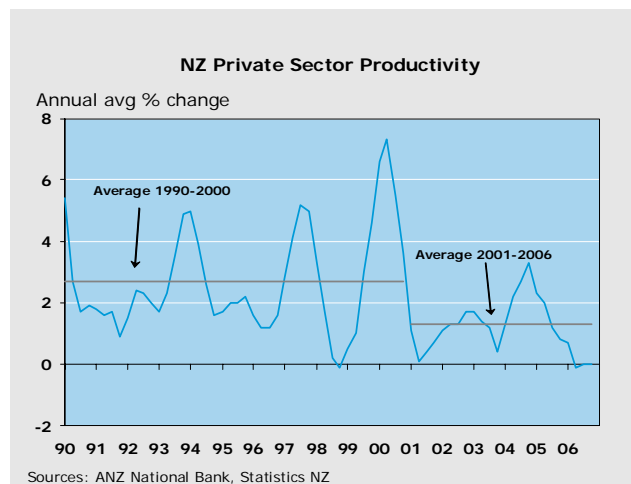
COMMODITY ELEVATION VERSUS PRODUCTIVITY PALPITATIONS

The gains to New Zealand from rising commodity prices and through our terms of trade have been partly eroded by weak productivity growth and rising unit labour costs relative to our trading partners. The NZD will not stay high indefinitely in such an environment.

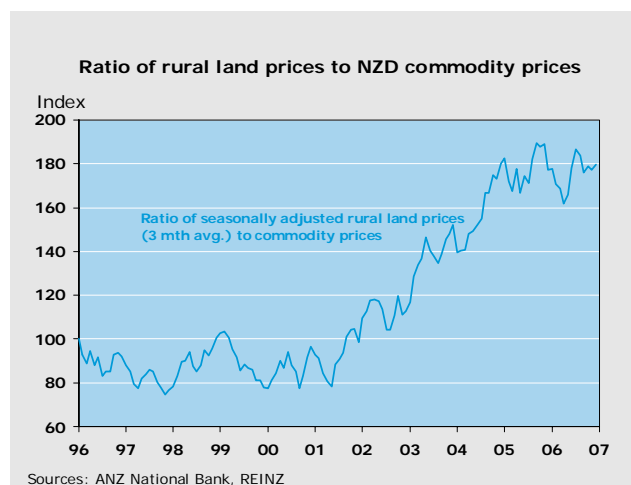
There have been comments from some circles recently that the NZD has experienced a structural shift higher and that it will remain at these high levels for a considerable period of time. Although we agree that reasons to sell the kiwi look sparse at present and that "fair value" for the NZD is certainly higher than in the past (as noted in our 10 April *Market Focus*), the "higher for longer" view does not sit well with us and we continue to believe that "what goes up, must come down", and the higher it goes up, the more aggressive the move lower will be.

The thrust of the "higher for longer" view is built around a shift up in commodity prices, which have likely experienced a structural change to a higher level, providing support to the economy. This in turn implies tighter monetary policy for longer. (We ignore other cyclical aspects to monetary policy in terms of this debate). These are valid factors that will support the currency. However:

- **We have been here before.** Back in 2000 when the NZD was wallowing below 40 US cents, the market thought the NZD would stay weak forever. The thought of the NZD/USD increasing to 0.60 was outlandish. Now people are saying a depreciation to 0.60 is a stretch. Moreover, the NZD/USD was at 0.7450 in March 2005, and hit 0.60 a year later. Currencies oscillate.
- **It is a terms of trade story as opposed to a commodity price story.** Relative as opposed to absolute prices are what matter. World soft commodity prices have risen by 17 percent in the past 12 months, while the terms of trade is up a more modest 4 percent. The terms of trade effect as opposed to the commodity price effect is the real income gain to the country. Let's not forget New Zealand is a net importer of oil, and other hard commodities that have surged in price.
- **Productivity is poor.** Average market sector productivity growth has roughly halved in the past six years relative to the prior decade. Although partly cyclical, it looks to contain a structural element. **The cumulative market sector productivity "loss" vis-à-vis Australia and US since 2001 has been 8 percent.** This has largely eroded the benefit of a rising terms of trade.



- **Unit labour costs are high.** Between 1991 and 2000 the annual growth in manufacturing unit labour costs averaged 0.3 percent. Since 2001, it has averaged 3.4 percent.
- **Expectations of strong and continued rises in commodity prices have already been capitalised into rural land values.** Land prices have risen by 70 percent since 2001. The implication we take from this is that strong commodity prices may not deliver a huge economic response or stimulus at this juncture of the cycle.



- **A bullish view of commodity prices is likewise already factored into the current account deficit.**

The upshot

Fair value for the NZD is undoubtedly higher than in the past and likely to rise over time given the structural shift up in commodity prices. However, the gains to this economy from rising commodity prices, and through our terms of trade have been partly eroded by weak productivity growth and rising unit labour costs relative to our trading partners. The NZD will not stay high indefinitely in such an environment.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
23 Apr	AU	Producer Price Index (1Q) – qoq	0.6%	0.2%	13:30
	UK	M4 Money Supply (Mar P) – mom	0.8%	0.9%	20:30
24 Apr	AU	Consumer Prices (1Q) – qoq	0.6%	-0.1%	13:30
		Consumer Prices (1Q) – yoy	3.0%	3.3%	13:30
		CPI Market Prices (1Q) – qoq	0.6%	0.7%	13:30
		CPI Market Prices (1Q) – yoy	2.6%	2.3%	13:30
		RBA Trimmed Mean (1Q) – qoq	0.6%	0.5%	-
		RBA Trimmed Mean (1Q) – yoy	2.8%	2.9%	-
		RBA Weighted Median (1Q) – qoq	0.7%	0.5%	-
		RBA Weighted Median (1Q) – yoy	2.9%	3.0%	-
	NZ	Credit Card Spending (Mar) – yoy	-	8.2%	15:00
	EU	ECB's Liebscher Holds Press Conference in Vienna	-	-	19:30
		ECB's Garganas Holds Press Conference in Athens	-	-	20:00
		Euro-Zone Current Account (Feb)	1.1B	2.7B	20:00
		Industrial New Orders (Feb) – mom	1.0%	-0.2%	21:00
	UK	BoE MPC Members at Treasury Committee	-	-	20:30
		Public Finances (PSNCR) (Mar)	15.9B	1.9B	20:30
		Public Sector Net Borrowing (Mar)	1.7B	1.0B	20:30
25 Apr	US	Richmond Fed Manufacturing Index (Apr)	-7	-10	02:00
		Consumer Confidence (Apr)	105.0	107.2	02:00
		Existing Home Sales (Mar)	6.4m	6.69m	02:00
		Existing Home Sales (Mar) – mom	-4.3%	3.9%	02:00
	JN	Merchandise Trade Balance Total (Mar)	¥1345.8B	¥976.7B	11:50
		Adjusted Merchandise Trade Balance (Mar)	¥946.7B	¥655.1B	11:50
	GE	IFO – Business Climate (Apr)	107.9	107.7	20:00
		IFO – Current Assessment (Apr)	112.5	112.4	20:00
		IFO – Expectations (Apr)	103.5	103.2	20:00
	UK	GDP (1Q P) – qoq	0.6%	0.7%	20:30
		GDP (1Q P) – yoy	2.8%	3.0%	20:30
26 Apr	EU	EU Commissioner Almunia Speak in Athens	-	-	00:30
	US	Durable Goods Orders (mar)	2.5%	1.7%	00:30
		Durables Ex Transportation (Mar)	1.0%	-1.0%	00:30
		New Home Sales (Mar)	890k	848k	02:00
		New Home Sales – mom	5.0%	-3.9%	02:00
		Fed's Beige Book	-	-	06:00
	NZ	RBNZ OCR Review	7.50%	7.50%	09:00
		Tax Receipts, Revenues (Mar)	-	-	09:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
26 Apr cont.	NZ	Trade Balance (Mar)	50m	-127m	10:45
		Imports (Mar)	3,295m	2,97m	10:45
		Exports (Mar)	3,273m	2,85m	10:45
		NBNZ Business Confidence (Apr)	-	-12.5	15:00
	AU	Westpac Leading Index (Feb) – mom	-	0.1%	12:30
	UK	Nationwide House Prices (Apr) – mom	0.6%	0.4%	18:00
	GE	Import Price Index (Mar) – mom	0.5%	0.5%	18:00
		GfK Consumer Confidence Survey (May)	4.7%	4.4	18:10
27 Apr	US	Help Wanted Index (Mar)	31	31	02:00
		Fed's Yellen Speaks on Economy to Investors in New York	-	-	11:30
		Fed's Mishkin Speaks on Globalisation at IMF in Washington	-	-	04:30
	UK	BoE Executive Director Tucker to Make Speech	-	-	02:05
		Car Production (Mar) - 3mth/3mth	-	-0.2%	20:30
	JN	Jobless Rate (Mar)	4.0%	4.0%	11:30
		Normura/JMMA Manufacturing PMI (Apr)	-	52.5	11:30
		Overall Household Spending (Mar) – yoy	0.8%	1.3%	11:30
		National CPI (Mar) – yoy	-0.1%	-0.2%	11:30
		National CPI Ex Fresh Food (Mar) – yoy	-0.2%	-0.1%	11:30
		National CPI Ex Food, Energy (Mar) – yoy	-0.2%	-0.3%	11:30
		Industrial Production (Mar P) – mom	1.0%	0.7%	11:50
		Retail Trade (Mar) – mom	-0.4%	-0.8%	11:50
		BoJ Target Rate	0.50%	0.50%	-
		Vehicle Production (Mar) – yoy	-	1.9%	16:00
		Housing Starts (Mar) – yoy	-0.9%	-9.9%	17:00
		Annualise Housing Starts (Mar)	1.228M	1.199m	17:00
		Construction Orders (Mar) – yoy	-	7.0%	17:00
		BoJ to Release Semi-Annual Economic Outlook Report	-	-	18:00
	GE	Bloomberg Germany Retail PMI (Apr)	-	52.8	20:00
	EU	Bloomberg Germany Retail PMI (Apr)	-	53.4	20:00
28 Apr	US	GDP Annualised (1Q A)	1.8%	2.5%	00:30
		Personal Consumption (1Q A)	3.5%	4.2%	00:30
		GDP Price Index (1Q A)	3.1%	1.7%	00:30
		Employment Cost Index (1Q)	0.9%	0.8%	00:30
		University of Michigan Confidence (Apr F)	85.3	85.3	02:00

Key: AU: Australia, CA: Canada, EU: European Union, GE: Germany, JP: Japan, NZ: New Zealand, UK: United Kingdom, US: United States.

Source: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. Na= not available. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over next four weeks: There is still a lack of data on the horizon for the Reserve Bank to assess the impact of their March OCR hike and the higher fixed mortgage rates. Instead further Q1 data will be received and is expected to continue to print strongly. The recent momentum in economic activity has gained legs and no slowdown is yet in sight.

Date	Data/Event	Economic Signal	Comment
Tue 24 Apr (15.00)	Credit Card Billings (Mar)	Steady	A small technical pull-back is expected given the strong increase in February.
Thu 26 Apr (09.00)	Reserve Bank <i>OCR Review</i>	Hike with the door left open to more	Despite the recent increases in fixed mortgage rates and the high level of the currency, continued upside surprises in the data have now become too difficult to ignore and we expect the Reserve Bank to increase the OCR by 25 bps to 7.75 percent.
Thu 26 Apr (10.45)	Merchandise Trade (Mar)	Small surplus	We expect the monthly trade balance to record a small surplus with high export commodity prices being offset by an increase in oil import prices.
Thu 26 Apr (15.00)	National Bank <i>Business Outlook</i> (Mar)	-	-
Fri 27 Apr (15.00)	Credit Growth (Mar)	Strong	Credit growth continues to show little evidence of slowing. We expect a 1.0 plus percent month.
Mon 30 Apr (10.45)	Building Consents (Mar)	Easing	The trend decline in consent issuance is expected to continue, although the speed of this decline is expected to have eased.
Fri 4 May (15.00)	ANZ Commodity Price Index (Apr)	-	-
Mon 7 May (10.45)	QES and LCI Surveys (Mar qtr)	Elevated	The labour market remains tight and difficulty in finding labour indicators suggest wage pressures will remain elevated for some time.
Thu 10 May (10.45)	Household Labour Force Survey (Mar qtr)	Tight	Pent-up demand rebound likely following two negative quarters. Employment growth is likely to be solid in the quarter given the pick-up in employment intentions. A large fall in the participation rate in December is expected to reverse slightly and leave the unemployment rate near historic lows.
Mon 14 May (10.45)	Retail Trade Survey (Mar qtr)	Strong	Even with a reasonable pull-back after strong increases in January and February, March quarter retail sales are expected to be strong. We expect volume growth in the vicinity of 1½ percent.
Tue 15 May (10.45)	Capital Goods Price Index (Mar qtr)	Mixed	Construction prices will remain high, although the high NZD should help to offset with lower plant and machinery prices.
Wed 16 May (10.45)	Producer Price Index (Mar qtr)	Tight margins	Firms expected to claw back some of their lost margins but overall margin pressure to remain.
Fri 18 May (10.45)	External Migration (Apr)	Easing	Annual migration flows have eased over the past few months. Stabilisation around current levels can be expected.
On Balance		A firm base	No slowdown in sight.

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SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Feb 07	Mar 07	23 Apr 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
NZD/USD	0.694	0.699	0.748	0.730	0.660	0.640	0.630	0.610	0.590	0.570
NZD/AUD	0.887	0.882	0.893	0.880	0.815	0.790	0.788	0.772	0.776	0.770
NZD/EUR	0.530	0.528	0.550	0.541	0.489	0.478	0.477	0.469	0.465	0.456
NZD/JPY	83.7	82.0	88.8	85.4	75.9	71.7	69.3	65.9	63.7	62.7
NZD/GBP	0.354	0.359	0.373	0.371	0.337	0.330	0.328	0.321	0.314	0.306
NZ\$ TWI	68.9	68.7	72.2	70.7	64.0	62.0	61.2	59.5	58.4	57.1
NZ interest rates	Feb 07	Mar 07	23 Apr 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
OCR	7.25	7.44	7.50	7.75	7.75	7.75	7.75	7.75	7.75	7.25
90 day bill	7.74	7.88	8.00	8.10	7.90	7.90	7.90	7.90	7.90	7.20
10 year bond	5.96	5.89	6.24	6.40	6.50	6.50	6.40	6.10	5.90	6.00
International	Feb 07	Mar 07	23 Apr 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
US Fed funds	5.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75	5.00	5.25
US 3-mth	5.35	5.35	5.36	5.40	5.00	4.60	4.75	4.90	5.25	5.40
AU cash	6.25	6.25	6.25	6.50	6.50	6.75	6.75	6.75	6.75	6.75
AU 3-mth	6.35	6.52	6.51	6.80	6.80	7.00	7.00	7.00	7.00	7.00

KEY RATES

	20 Mar	16 Apr	17 Apr	18 Apr	19 Apr	20 Apr
Official Cash Rate	7.50	7.50	7.50	7.50	7.50	7.50
30 day bank bill	7.79	7.90	7.90	7.89	7.86	7.87
90 day bank bill	7.91	8.00	8.00	8.01	8.00	8.00
NZGB 07/09	6.88	7.13	7.13	7.17	7.17	7.17
NZGB 11/11	6.57	6.77	6.79	6.85	6.84	6.84
NZGB 04/13	6.26	6.48	6.50	6.56	6.55	6.54
NZGB 12/17	5.90	6.11	6.15	6.23	6.22	6.21
1 year swap	8.04	8.17	8.15	8.16	8.15	8.17
2 year swap	7.91	8.09	8.05	8.07	8.05	8.05
5 year swap	7.57	7.81	7.77	7.80	7.78	7.78
RBNZ TWI	68.8	71.6	71.7	72.1	71.4	71.8
NZD/USD	0.7015	0.7390	0.7394	0.7468	0.7399	0.7437
NZD/AUD	0.8774	0.8876	0.8878	0.8928	0.8888	0.8907
NZD/JPY	82.65	88.19	88.43	88.62	87.23	88.25
NZD/GBP	0.3607	0.3717	0.3715	0.3719	0.3692	0.3713
NZD/EUR	0.5278	0.5452	0.5462	0.5498	0.5442	0.5462
AUD/USD	0.7995	0.8326	0.8328	0.8365	0.8325	0.8350
EUR/USD	1.3290	1.3555	1.3537	1.3584	1.3595	1.3615
USD/JPY	117.82	119.34	119.60	118.66	117.90	118.66
GBP/USD	1.9448	1.9879	1.9901	2.0080	2.0039	2.0029
Oil	56.65	63.14	63.14	63.14	63.14	61.81
Gold	655.00	687.85	687.85	688.65	688.55	684.05
Electricity Price Index	5.60	6.60	6.63	6.69	6.72	6.71

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