

FLEXIBLE AND PRAGMATIC

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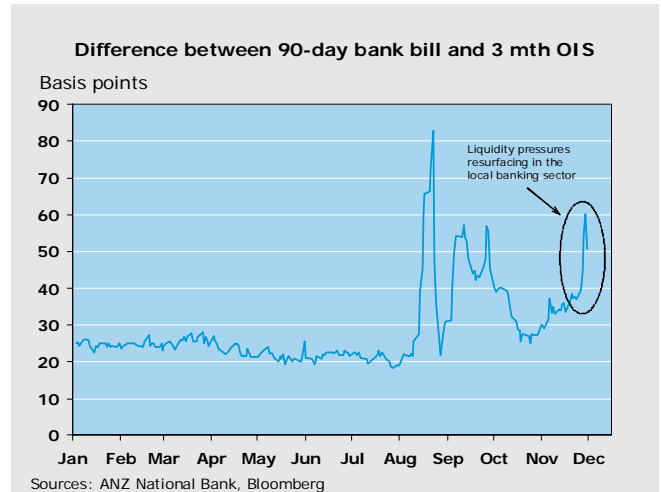
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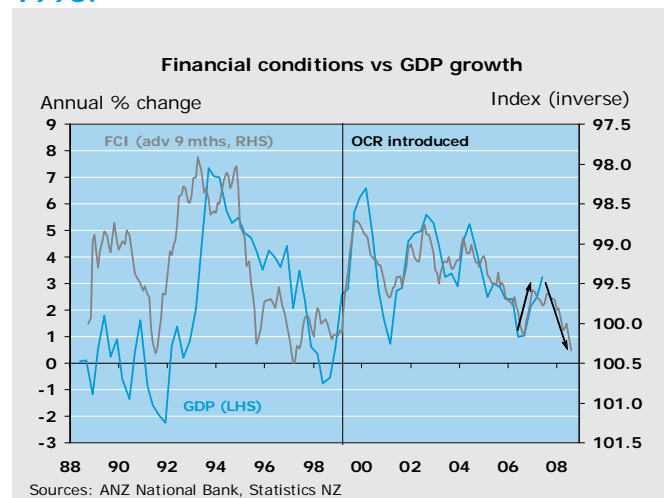
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A resurfacing of liquidity pressures in the banking sector is forcing up short-term interest rates.



Global credit developments have led to the tightest financial conditions since 1996.



ECONOMIC OVERVIEW

Interest rate announcements locally and offshore will be the focus this week in an environment that remains uncertain and volatile. Inflation pressures suggest higher interest rates, yet downside growth risks warrant caution. A flexible and pragmatic approach to policymaking is required.

What's ahead?

- ANZ November Commodity Price Index (Wednesday 1500 NZDT).
- RBNZ *Monetary Policy Statement* (Thursday 0900 NZDT). No change and by-and-large a repeat of sentiment expressed in September.
- NZ Q3 Wholesale Trade Survey (Thursday 1045 NZDT). Retail spending was soft over Q3 and should also weigh on wholesale trade activity.
- NZ Q3 Value of Building Work Put in Place (Friday 1045 NZDT). Lower dwelling consents suggest residential building work will be soft. However, this will be offset by still solid non-residential construction work.

What's the view?

Locally it is all about the Reserve Bank this week as they announce their last scheduled OCR decision for the year. Given the current level of uncertainty surrounding the economic outlook (both locally and offshore), we expect the Bank to leave the OCR unchanged at 8.25 percent (refer to our preview page 5). However, the task ahead of the Reserve Bank (as for any central bank) is anything but an easy one. The current environment is incredibly challenging and one that, in the words of Federal Reserve Vice Chairman Kohn last week, requires "flexible and pragmatic policymaking."

The level of inflationary pressures around the globe is causing headaches for many central bankers, particularly those who remember the 1970's experience. Global food and oil price increases cannot be ignored. While central banks will look through the one-off impact, they will remain alert to any generalised inflationary pressure.

Against a backdrop of inflation risks, credit developments are suggesting large downside risks to growth. There are signs that credit dislocation is spreading to other countries and liquidity pressures in the financial system are resurfacing. The NZ 90-day bank bill rate has increased to close to 9 percent, US LIBOR rate has set at over 5.1 percent, and spreads in Europe have similarly increased. As noted before, credit, and the role the credit accelerator has played in buoying the international economy, has been so significant that we struggle to see it not having a reverse impact as the process of repricing and altered credit appetites takes place.

Internationally, debate continues to rage on two levels. Will the US enter a recession, and has the global economy decoupled? Is Asian internal

demand strong enough to go it alone if the US consumer buckles? With US housing supply hitting 11 months, the odds are now shifting towards the dreaded 'R' in the US, and we question whether Asia can underpin the global economy if both the US and Europe are slowing.

Typically it is the trade or growth channel that has had the biggest impact on New Zealand - notably less demand for exports and falling commodity prices. Asia remains critical to watch. However, given the "credit" nature of current global unease and New Zealand's indebtedness, the borrowing, funding and ripple flow-on for the property market may well dominate this time around. News of another local finance company being placed into receivership illustrates some of the key risks and vulnerabilities facing the economy at present, as risk is re-priced and the credit cycle turns.

For now, it looks as though a slow-burn type of moderation is continuing within NZ, which is consistent with a soft landing. Business confidence eased in the month, but still remains relatively robust. Softening in the housing market also continues to progress, with dwelling consents easing 4.8 percent in the month following a 10 percent fall in September. The strong historical relationship between house sales and consent issuance suggests that further falls in consents is likely in the coming months and this should eventually weigh on construction activity. We should get an early indication of this through the construction work put in place data released at the end of the week. This is a key piece of partial data used in our GDP estimates.

Offshore it is also all about interest rate decisions this week, with the RBA, ECB, BoC and BoE all due to make announcements. Of the four, the BoC and BoE are the only ones where there looks to be a realistic probability of any change. Although most economists are picking rates to remain on hold, the market is currently pricing in between 80 and 100 percent chance of a cut. The UK appears to be another country that is not faring too well with recent credit dislocations and their housing market has also softened. But as is a theme worldwide, inflation pressures remain and any decision looks likely to be a close one. Australian Q3 GDP growth will also be important this week, with the market expecting a solid 1.0 percent growth.

Recent data...

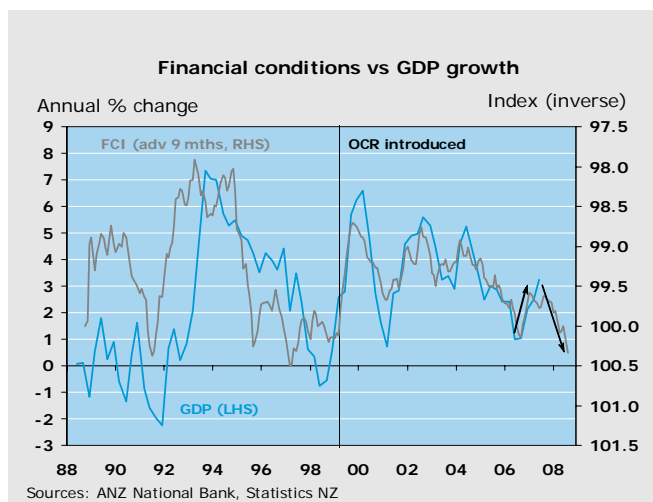
- **NZ Overseas Merchandise Trade (Oct)**. The monthly trade deficit printed at \$690 million.
- **NBNZ Regional Trends (Nov)**. Nationwide measure down 0.3 percent over the quarter.
- **NZ Building Consents (Oct)**. Dwelling consents issued fell 4.8 percent. Excluding apartments, a 1.7 percent fall was recorded.
- **NBNZ Business Outlook (Nov)**. Headline confidence, firms' own activity expectations and pricing intentions eased.
- **NZ Credit Growth (Oct)** rose by 0.8 percent.

FINANCIAL CONDITIONS UPDATE

Financial conditions tightened further over November, largely on the back of global credit concerns. Our *Financial Conditions Index* is now the tightest it has been since 1996.

Regular readers will be familiar with our *Financial Conditions Index (FCI)*¹, which we monitor and provide periodic updates in this publication. Unlike the conventional *Monetary Conditions Index*, our *FCI* includes a wider array of variables to recognise the different channels through which monetary policy influences the economy. Our *FCI* provides a timely gauge of economic activity 6 to 9 months into the future, and more importantly it has been successful in predicting key turning points in the growth cycle.

Financial conditions have been contracting over the past 12 months, but appear to have taken a step change tighter over the last two months. While some of the variables that go into our *FCI* still remain supportive of growth, such as credit growth and liquidity, fresh global credit concerns in recent weeks has resulted in a massive tightening in financial conditions. Our *FCI* is now the tightest it has been since 1996.



Over November, NZ 90-day and 2-year swap rates have risen despite monetary policy being on hold. Concerns over inflation pressure and another cash squeeze in the local market are reasons behind the increases. As a consequence, fixed rate mortgages have risen, delivering a de facto tightening for the Reserve Bank. But it is the 20 basis point increase in the US 2-year swap spread – a proxy for risk appetites and credit availability in our *FCI* – that has resulted in most of the tightening over the month.

The widening in the US swap spread on the back of global credit concerns portends of a material deterioration in risk appetites globally that has the potential to tip an already vulnerable NZ economy. Unlike the direct link between domestic interest rates and economic activity, the relationship between NZ economic growth and the US swap spread is less clear. But when you consider NZ's reliance on foreign funding, and the US swap spread as a proxy for both the cost and supply of credit, the relationship becomes clearer.

Indicators	Comment	Impact on activity
Currency, adjusted for commodity prices and input costs	TWI fell slightly over the month, helping to ease conditions somewhat.	↔/↑
Interest rates	Both the 90-day and 2-year swap rate moved higher.	↓
US 2-year swap spread	Massive widening of swap spreads amid fresh global credit concerns.	↓
Equity market index as a proxy for corporate wealth and liquidity	Equity prices headed lower amid global jitters.	↓
House prices as a proxy for household wealth	House prices effectively flat.	↔
Private sector credit growth	Credit growth still robust but slowing.	↔/↑
Liquidity	Liquidity remains abundant but starting to ease.	↔/↑
Overall conditions	Tightened due to higher interest rates and credit concerns.	↓

Certainly, confidence indicators to date point to the economy finding a firm base at present. Economic growth over the second half of this year may be looking soft at present, but the economy continues to enjoy strong support from high commodity prices, a tight labour market, and expansionary fiscal policy. Hence, it seems hard to believe that GDP growth could turn materially lower from the current 3.2 percent annual pace towards sub-1 percent by late next year. But that is what our *FCI* is alluding to.

Our own central view is for a modest soft landing for the economy. Yet, our *FCI*'s past track record in picking GDP growth (correlation of -0.86 since 1999) means we must take notice.

¹ Our index is calibrated so that there is a 4:1 ratio between the internal (e.g. interest rates) and external (e.g. currency) variables.

INTEREST RATE STRATEGY

RBNZ holds centre stage this week, but it will be global moves that will drive the local rates market again. Expect more whippy moves this week.

Market themes...

- Global credit fears dominate. Cash squeeze in the local market sees 90-day rate push as high as 8.96 percent.
- RBNZ this week unlikely to provide fresh cues for the market.

Outlook...

It was a whippy trading week for the local rates market last week, with offshore developments driving all the moves and domestic data taking a back seat. Ranges appear to be holding at this stage - just. The 2-year swap yield has traded from the bottom to the top of its 8.5 to 8.65 percent trading range last week. A near-term extension above that range can be expected if offshore markets selloff further.

The big move last week was the 90-day bank bill rate, which has risen to as high as 8.96 percent due to a cash squeeze in the market. The move is likely exacerbated by the end of month selling in kiwi bills, with the spread between the 90-day and 3 month OIS now ballooning out to over 60bps, the highest since the mid-August credit market turmoil. With global credit market jitters remaining despite a recovery in US equities over recent days following the Abu Dhabi cash injection into Citigroup, we expect the cash squeeze to persist in the near-term. Given the carry cost, the higher 90-day rate will hold the front-end swaps yield higher, delivering a de facto tightening for the RBNZ.

In the near term, the local market will continue to take its cues off global moves. The US Federal Reserve's December FOMC meeting is shaping up as the key event risk that will provide direction for the global financial market. Until then, we expect the local rates market to range trade and drift on flows as participants sit on the sidelines.

Market pricing continues to pare back, with around a 4 percent chance of a further hike by April next year priced in. But the market also remains reluctant to test an easing theme too soon given inflation pressures, with a 30 percent chance of a rate cut priced in for the second half of next year. We expect the NZ-US 10-year bond spread to come under further widening pressure as the markets test an aggressive easing theme from the Fed.

This week is a busy offshore week with central bank announcements from the RBA, BoE, BoC and ECB. AU Q3 GDP is out, while key reads on the US

economy in the form of ISM and non-farm payrolls will give the markets plenty to chew over.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔	Inflation risks balanced by ongoing uncertainty.
NZ data	↔	Second tier data this week unlikely to provide much steer for markets.
Fed Funds/front end	↔/↓	Fed rhetoric has softened slightly, indicating a December rate cut could be on the cards.
RBA	↔/↑	Strong Q3 GDP this week to keep the heat on the RBA.
US 10 year	↔/↓	Violent swings expected to continue as market goes from credit fear to rate cut relief.
NZ swap spreads	↔/↓	We expect spreads to narrow this week, led by bond moves.
Flow	↔/↑	Payside pressure to dominate this week following recent pullback.
Technicals	↔	All eyes on the FOMC decision next week for new technical levels to be established.

Borrowing strategies we favour at present

Again another choppy week in the rates market saw swap levels end higher over the week. Global liquidity concerns re-enforce our view that fixed rate payers target the 2, 3 and 4 year maturities of the swap curve spreading their debt profile if able. For those that require protection further out along the yield curve, we suggest entering into extendible swaps or forward starting interest rate caps. Please contact your local capital markets dealer for further details.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 6-Dec-07	2	2
Thu 24-Jan-08	5	4
Thu 6-Mar-08	8	4
Thu 24-Apr-08	12	4
Thu 5-Jun-08	-10	-4
Thu 24-Jul-08	-10	-28
Thu 11-Sep-08	-10	-28

Trading themes we favour at present

From a risk reward perspective, there will be a larger market reaction to a softer RBNZ tone given that most expect the usual hawkish bent. But any rally is unlikely to last, with paying to emerge near the bottom of ranges.

DECEMBER MONETARY POLICY STATEMENT PREVIEW

We expect the Reserve Bank to leave the OCR unchanged at 8.25 percent and the tenor to largely repeat September's nuances. Upside inflation risks from capacity pressure, downside risks to growth from credit unease, and a very uncertain economic environment will feature. The Bank's 'wait-and-see' stance will be maintained but the *Statement* will contain the usual hawkish undertones.

The Reserve Bank outlined two scenarios in its September MPS which contained diverging paths for monetary policy. One involved additional inflation necessitating higher interest rates. The other contained an extension of global unease and credit dislocation, leading to looser monetary conditions. Rather eerily, both scenarios appear to be panning out with inflationary pressure intensifying via a low unemployment rate, higher food and petrol prices, and the proposed emissions trading scheme, but global credit markets more fragile than in August. For the Reserve Bank, these are very uncertain times that require a pragmatic approach to policy.

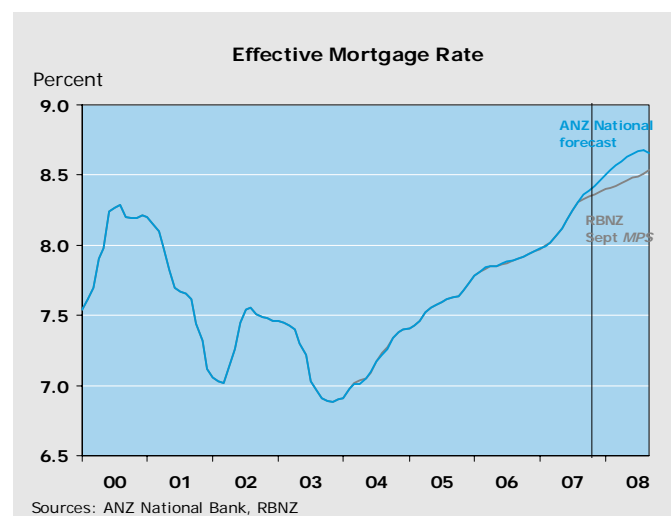
By-and-large there have been two key developments since the September *Statement*, both in line with the Reserve Bank's scenarios.

Firstly, inflationary pressures continue to intensify.

- **Headline inflation is likely to push through the top of the target band.** Higher petrol and food prices look set to take headline inflation past 3 percent at the end of this year and into early next year. In this environment the Reserve Bank will feel compelled to wave a big stick at wage and price setting behaviour to ensure such a rise does not become embedded into pricing behaviour. With inflation averaging 2.8 percent since 2004, the Reserve Bank cannot afford to allow inflation to stay persistently at the top of the target band.
- **Near-term risks to inflation reside to the upside.** The labour market is tighter than ever and there is still an undercurrent of inflationary pressure in the system. Inflation expectations (a key input into the Reserve Bank's medium-term inflation projections) nudged up a tad, meeting New Zealand's emissions commitments will add further to inflation pressure, and the Government is set to deliver tax cuts next year.
- **In the absence of a strong cyclical slowdown** – a forecast we suspect the Reserve Bank will be loathe to run as a baseline – inflation pressure will likely remain around the top of the 1 to 3 percent band for a number of years. This will push the interpretation of the Policy Targets Agreement.

Secondly, against this inflationary backdrop, the global credit environment continues to deteriorate. Bill-LIBOR spreads have once again blown-out, credit dislocation is infecting Europe, growth estimates for the US have been revised down, and successive rate cuts by the US Fed have failed to stabilise financial markets. Prospects for the US (recession or not) and decoupling (does it get into Asia?) are being rigorously debated with no clear consensus. We are strongly suspicious of Asia's (India's and China's) ability to anchor the global economy if both Europe and US credit markets continue to function in a disorderly fashion. Credit and well functioning financial intermediaries resides at the heart of the global financial system. The blow-out in bill-LIBOR spreads is indicative of markets that are in danger of seizing. The blow-out has delivered the equivalent of two rate hikes in Europe. Easings by the Fed have merely countered the tightening delivered by the 50 to 80 basis point widening in spreads. The financial plumbing needs to work, period. At present this is not the case.

Outside of these areas, there has generally been an array of mixed fortunes. The labour market is tighter than the Reserve Bank was assuming in September, political posturing is pointing to a huge spending impulse, Australia is booming, the dairy windfall is not being saved and soft commodity prices continue to hold up at high levels. In contrast, there are clear signs that domestic demand is waning. House prices look set to fall by early 2008 as opposed to the flattening assumed by the bank, and the currency is 5 percent above the level assumed in September. The interest rate curve continues to actively work for the Reserve Bank. We estimate that the effective mortgage rate facing households will be 15-20bps higher over the coming year compared to the Reserve Bank projections in September. In aggregate, the economy appears to have formed a reasonable base, judging from the resilience in recent business and consumer confidence readings.



The above combinations leave the Reserve Bank juggling the same balancing act to what it faced in September. Given the universal expectation that

the OCR will be on hold, the main interest will be the nuances contained in the one page policy assessment and the overall *Statement* itself. We expect:

- **The policy assessment to largely mirror the October Review**, highlighting upside risks to inflation but maintaining their view that further tightening is unlikely at this stage.
- **Within the forecasts, the extent of inflation pressure is likely to be heavily massaged (suppressed)** by the usual combination of a high potential growth rate and strong productivity growth, an extended period of currency strength, and conservative assumptions on pass-through.
- **The *Statement* to maintain a hawkish bent throughout**, signalling the Reserve Bank's unease over inflation pressure and elevated expectations. Some discussion over the impact of higher oil prices is expected, and how the Bank intends to deal with it (i.e. look through first round impact, but be vigilant against second round effects).
- **Fiscal policy to be highlighted as a key source of upside risk to medium-term inflation.** We would not be surprised to see some analysis of how the Bank would treat and respond to any tax cut package given the big stick the Reserve Bank waved at fiscal policy in the October *Review*.
- **The wider than normal degree of uncertainty that accompanies the forecasts and assessment.** Given global dislocation at present the Reserve Bank's projections by themselves should not be the major focal point. Rather, the *Statement's*

discussion of the risks surrounding the economic and policy outlook, and the judgements that the Reserve Bank have made, will be of greater importance. As in the September *MPS*, the scenarios the Reserve Bank presents will contain a useful guide as to the Bank's likely policy bias.

- **The economic projections to once again contain a heavy ruler element**, with the path for growth, inflation, interest rates, and the currency largely flat-lined over the coming two years.

Financial market implications

At the time of writing the market was pricing in 0.5pts of tightening, with a 4 percent chance of a rate hike by April next year. The market is in step with the Bank's inflation concerns, and has rate cuts priced in only by late next year. We suspect the Reserve Bank would be comfortable with current market pricing and as such, we do not anticipate much market reaction on the day.

In terms of the uncertainty that continues to surround the economic environment and Reserve Bank's likely assessment, we remain more attuned to the risks of credit dislocation extending as opposed to the inflationary genie being let further out of the bottle. The bottom line for central banks is that the financial plumbing needs to function.

Our forecasts of RBNZ Projections for December *MPS* (September *MPS* Projections)

Half year average	H2 2007	H1 2008	H2 2008	H1 2009	H2 2009
90 day	8.7 (8.6)	8.7 (8.6)	8.7 (8.6)	8.4 (8.4)	8.2 (8.2)
TWI	70.5 (68.5)	69.5 (67.1)	68.0 (67.3)	67.5 (67.6)	68.0 (68.0)
March years	2007	2008	2009	2010	
CPI (ann % chg)	2.5 (2.5)	3.0 (2.9)	3.0 (3.0)	2.5 (2.6)	
GDP (ann ave % chg)	1.7 (1.7)	3.0 (2.9)	2.8 (2.9)	2.8 (2.8)	

CURRENCY STRATEGY

Central bank announcements the focus this week as will be the relative performance of the USD. For the NZD, risk and yield themes to continue to feature with ranges expected to remain large.

Market themes...

- Interest rate decisions from RBNZ, RBA, BoC, ECB and BoE this week.
- But ultimately it is the Fed's decision in a fortnight's time that is critical.
- The familiar battle between yield and risk continues – leading to volatility.

Outlook...

Another volatile and whippy week for the NZD as a lack of major local data saw global developments once again dominate. It was the familiar battle between yield and risk that came to the fore and although the NZD again ended the week broadly where it started, it experienced a relatively wide 2½ cent trading band against the USD.

One key development last week was what looked like an increased willingness from the US Fed to cut interest rates at its meeting this month. Relatively dovish comments from Fed Chairman Bernanke and Vice Chairman Kohn were in stark contrast to previous Fed statements that looked balanced between upside inflation and downside growth risks. The recent intensification of global credit unease appears to have the Fed on alert. Markets are now aggressively pricing in interest rate cuts for the Fed, with one 25bp cut this month more than fully priced in followed by another four cuts by June next year. This is providing support to US equities – which generally trended higher over the week as risk aversion reduced. It also ironically lifted the USD off its record lows as the market perceives the interest rate cuts will enable the US economy to starve off recession. It is this recovery in the USD that is capping any gains in the NZD at the moment and remains critical – along with US equity markets – as a directional guide for the kiwi.

The Fed's upcoming interest rate decision (12 December NZDT) remains key for markets and will provide the make or break with how markets trade over the remainder of the year. However, other central banks should take the limelight this week. The RBNZ, RBA, BoC, ECB and BoE are scheduled to announce interest rate decisions. The RBA, ECB and RBNZ are widely tipped to leave rates on hold, while the markets are pricing in a high chance of the BoE and BoC cutting their policy rates. These are challenging times for central banks. Inflation remains stubbornly high, and yet the economic environment is uncertain. As is usually the case, any accompanying statements will be heavily

dissected. It is also a relatively busy data week, with Australian Q3 GDP expected to reinforce the Australian economy is now on a different growth path to NZ. US data is also important and ISM manufacturing and non-manufacturing will be key, as will be non-farm payrolls at the end of the week.

Technically, 0.7420 (the 200 day moving average) is the major technical level in the NZD/USD. Consolidation in a 0.7450/0.7800 range looks set to continue into Christmas. The NZD/AUD cross rejected its 200 day moving average resistance at 0.8750 on Friday night. A test of major support at 0.8620 is now underway; treat this level as a pivot.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔/↓	Growth differentials favouring AUD. But 0.83 feels about right.
Yield	↔/↓	RBA tightening, RBNZ on hold.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Better across the Tasman. Terms of trade shocks bigger there.
Technicals	↔	Support at 0.8620, treat this as a pivot.
Sentiment	↓	AUD data is better.
Other	↓	Elections over. Back to fundamentals.
On balance	↔/↓	0.8620 major support but break will signal top.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↑	US data is woeful.
Yield	↑	1 year forwards above 300 points is impossible to fight.
Commodities	↑	Higher commodity prices are still a major factor.
Risk aversion	↓	Credit concerns are weighing.
Partial indicators	↔	NZ domestic economy is soft, but US is softer.
Technicals	↔	200 day ma at 0.7420 to contain downside.
AUD	↑	Election over. Business as usual.
Sentiment	↔	Neutral in NZ, bearish in US.
Other	↑/↔	USD disliked globally.
On balance	↑	Still yield v risk aversion, but feeling like yield will win.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
3 Dec	AU	AiG Performance of Manufacturing Index (Nov)	-	53.3	11:30
		TD Securities Inflation (Nov) – mom	-	0.3%	12:30
		Trade Balance (Oct)	-1,800m	-1,862m	13:30
		Exports (Oct)	-	17,916m	13:30
		Imports (Oct)	-	19,779m	13:30
		Company Operating Profit (3Q) – qoq	2.0%	1.4%	13:30
		Inventories (3Q)	0.5%	0.4%	13:30
		RBA Commodity Index SDR (Nov) – yoy	-	6.0%	18:30
	JN	Capital Spending (3Q)	-2.5%	-4.9%	12:50
		Capital Spending excl Software (3Q)	-2.5%	-5.7%	12:50
		BoJ Governor Fukui to meet with business leaders	-	-	14:00
		Labour Cash Earnings (Oct) – yoy	-0.1%	-0.6%	14:30
		Overtime Earnings (Oct) – yoy	-	1.3%	14:30
		Vehicle Sales (Nov) – yoy	-	2.0%	18:00
	GE	PMI Manufacturing (Nov)	52.9	51.7	21:55
	EU	PMI Manufacturing (Nov F)	52.6	52.6	22:00
		Euro-Zone Unemployment Rate (Oct)	7.3	7.3%	23:00
	UK	PMI Manufacturing (Nov)	52.5	52.9	22:30
4 Dec	EU	ECB's Trichet speaks in Paris	-	-	01:30
		ECB's Gonzalez-Paramo speaks in Milan	-	-	02:00
		ECB's Smaghi speaks in Brussels	-	-	08:00
	US	Fed's Rosengren speaks on Subprime Mortgages in Boston	-	-	02:00
		ISM Manufacturing (Nov)	50.7	50.9	04:00
		ISM Prices Paid (Nov)	65.5	63.0	04:00
		Fed's Yellen speaks in Seattle on US outlook and monetary policy	-	-	09:30
	JN	Monetary Base (Nov) – yoy	0.7%	0.5%	12:50
	AU	Building Approvals (Oct) – mom	5.3%	6.8%	13:30
		Retail Sales (Oct)	0.6%	0.8%	13:30
	UK	PMI Construction (Nov)	57.0	57.4	22:30
	EU	PMI (Oct) – mom	0.4%	0.4%	23:00
5 Dec	AU	RBA Interest Rate Announcement	6.75%	6.75%	11:30
		AiG Performance of Service Index (Nov)	-	53.2	11:30
		GDP (3Q) – qoq	1.0%	1.0%	13:30
		GDP (3Q) – yoy	4.8%	4.3%	13:30
	NZ	ANZ Commodity Price Index (Nov)	-	1.8%	15:00
	EU	ECB's Trichet speaks in Berlin	-	-	21:30
		PMI Services (Nov F)	53.7	53.7	22:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)	
5 Dec cont.	EU	PMI Composite (Nov F)	53.8	53.8	22:00	
		Retail Sales (Oct) – mom	-0.3%	0.3%	23:00	
	GE	PMI Services (Nov)	53.5	55.1	21:55	
	UK	Official Reserves (Changes) (Nov)	-	\$631m	22:30	
		PMI Services (Nov)	52.9	53.1	22:30	
6 Dec	US	Challenger Job Cuts (Nov) – yoy	-	-8.8%	01:00	
		ADP Employment Change (Nov)	50k	106k	02:15	
		Non-Farm Productivity (3Q F)	5.7%	4.9%	02:30	
		Unit Labour Costs (3Q F)	-1.0%	-0.2%	02:30	
		Factor Orders (Oct)	0.0%	0.2%	04:00	
		ISM Non-Manufacturing (Nov)	55.0	55.8	04:00	
		NZ	Reserve Bank Monetary Policy Statement	8.25%	8.25%	09:00
		JN	Leading Economic Index (Oct P)	20.0%	0.0%	18:00
			Coincident Index (Oct P)	66.7%	60.0%	18:00
			Machine Tool Orders (Nov P) – yoy	-	16.6%	19:00
	UK	Industrial Production (Oct) – mom	0.2%	-0.4%	22:30	
		Manufacturing Production (Oct) – mom	0.2%	-0.6%	22:30	
7 Dec	GE	Factor Orders (Oct) – mom	0.9%	-2.5%	00:00	
	UK	BoE Announces Interest Rates	5.75%	5.75%	01:00	
	EU	ECB Announces Interest Rates	4.00%	4.00%	01:45	
		ECB's Trichet speaks at ECB Monthly News Conference	-	-	02:30	
	US	Initial Jobless Claims (Dec 2)	335k	352k	02:30	
		Continuing Claims (Nov 25)	2,603k	2,665k	02:30	
	AU	AiG Performance of Construction Index (Nov)	-	57.4	11:30	
		Foreign Reserves (Nov)	-	A\$36.0B	18:30	
	JN	GDP (3Q F) – qoq	0.6%	0.6%	12:50	
		GDP Deflator (3Q F) – yoy	-	-0.3%	12:50	
Official Reserve Assets (Nov)		-	\$954.5B	12:50		
8 Dec	GE	Industrial Production (Oct) – mom	-0.5%	0.5%	00:00	
	EU	Euro-Zone OECD Leading Indicator (Oct)	-	98.3	00:00	
	US	Change in Non-Farm Payrolls (Nov)	75k	166k	02:30	
		Unemployment Rate (Nov)	4.8%	4.7%	02:30	
		Change in Manufacturing Payrolls (Nov)	-15k	-21k	02:30	
		Average Hourly Earnings (Nov) – mom	0.3%	0.2%	02:30	
		Average Weekly Hours (Nov)	33.8	33.8	02:30	
		University of Michigan Confidence (Dec P)	75.0	76.1	04:00	
		Consumer Credit (Oct)	5.5B	3.7B	09:00	
		ECB's Trichet speaks in Hamburg	-	-	06:00	

Key: AU: Australia, EU: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States.

Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: The Reserve Bank once again takes centre stage this week with their *Monetary Policy Statement*. We expect them to keep the OCR on hold and to deliver a reasonably similar statement to the September *MPS* and October *Review*. Their inflation forecasts are likely to be revised higher, while short-term growth forecasts lower. Over the next few weeks we also receive final partial indicators for Q3 GDP. At this stage growth is looking relatively soft for the quarter.

Date	Data/Event	Economic Signal	Comment
Wed 5 Dec (15.00)	ANZ Commodity Price Index (November)	-	-
Thu 6 Dec (09.00)	RBNZ <i>Monetary Policy Statement</i>	Wait-and-see stance remaining	The OCR to remain on hold. We expect the RBNZ to acknowledge that things have largely panned out as they had expected at their September <i>MPS</i> . Nevertheless, inflation concerns will continue to dominate and the Bank will continue to grant that uncertainty remains high.
Thu 6 Dec (10.45)	Wholesale Trade Survey (Sep qtr)	Soft	Real consumer spending was soft over the quarter. This should also weigh on wholesale trade activity.
Fri 7 Dec (10.45)	Value of Building Work Put in Place (Sep qtr)	Mixed	Lower dwelling consents suggest residential building work will be soft. However, this will be offset by still solid non-residential construction work.
circa 10 Dec	REINZ Housing report (November)	Soft	House sales to remain weak, median days to sell to continue trending upwards and annual house price growth to soften.
Tue 11 Dec (10.45)	Overseas Trade Indexes (Sep qtr)	Terms of trade up strongly	Surging world dairy prices and a small fall in global oil prices are expected to contribute to a large increase in the terms of trade.
Thu 13 Dec (10.45)	Retail Trade Survey (October)	Moderation	Recent monthly results show that consumer spending is slowly moderating. We expect this trend to continue.
Fri 14 Dec (10.45)	Economic Survey of Manufacturing (Sep qtr)	Resilient	A lower NZD/AUD and still resilient PMI survey suggest manufacturing activity was reasonably solid over the quarter.
Tue 18 Dec (15.00)	NBNZ Business Outlook (Dec)	-	-
Wed 19 Dec (10.45)	External Migration (Nov)	Easing	Net inflows have eased over the year. We feel a base is likely to form around current levels, although the risks appear to lie to the downside.
Thu 20 Dec (10.45)	Balance of Payments (Sep qtr)	Unchanged by set to improve	We expect the current account deficit to remain around 8.2 percent of GDP. However, an expected strong improvement in the terms of trade over Q4 and 2008 is set to see the current account deficit reduce.
Fri 21 Dec (10.45)	Gross Domestic Product (Sep qtr)	Pull-back from strong H1	We have penciled in growth of 0.2 percent in the quarter with soft private consumption and net exports once again detracting from growth.
Fri 21 Dec (10.45)	Credit Card Spending (Nov)	Softening	A moderation in consumer spending is expected to continue though higher petrol prices will inflate billings. The interest bearing component of outstanding balances will be interesting to watch after experiencing a reasonable tick-up last month.
On Balance		Sub-trend but respectable	All about inflation from here.

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SUMMARY OF KEY ECONOMIC FORECASTS

	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
GDP (% qoq)	0.4	0.8	1.2	0.7	0.2	0.3	0.3	0.4	0.4	0.6
GDP (% yoy)	1.0	2.1	2.5	3.2	3.0	2.5	1.5	1.2	1.4	1.7
CPI (% qoq)	0.7	-0.2	0.5	1.0	0.5	0.9	0.5	0.8	0.8	0.8
CPI (% yoy)	3.5	2.6	2.5	2.0	1.8	2.9	2.9	2.6	2.9	2.8
Employment (% qoq)	-0.3	0.0	1.2	0.6	-0.3	0.4	0.4	0.2	0.2	0.2
Employment (% yoy)	1.5	1.4	1.7	1.6	1.5	1.9	1.1	0.7	1.2	1.0
Unemployment Rate (% sa)	3.8	3.7	3.7	3.6	3.5	3.6	3.7	3.8	3.9	4.0
Current Account (% GDP)	-8.8	-8.7	-8.3	-8.2	-8.2	-7.9	-7.4	-6.9	-6.8	-6.8
Terms of Trade (% qoq)	-2.2	2.5	1.5	0.6	5.5	2.8	0.7	-0.3	-0.5	-0.4
Terms of Trade (% yoy)	-1.3	3.8	4.5	2.5	10.5	10.8	9.8	8.8	2.6	-0.6

Figures in bold are forecasts. qoq: Quarter-on-Quarter yoy: Year-on-Year

KEY ECONOMIC INDICATORS

	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07
Retail Sales (% mom)	0.4	2.2	0.9	-1.3	1.1	-0.4	0.2	0.3	1.0	..
Retail Sales (% yoy)	6.9	6.4	7.4	7.4	6.7	4.8	5.7	6.3	4.1	..
Credit Card Billings (% mom)	-0.8	1.5	1.0	-1.0	0.8	1.8	0.1	0.2	2.7	-0.5
Credit Card Billings (% yoy)	6.7	8.2	7.2	7.9	5.8	9.0	7.9	8.6	9.4	7.8
Car Registrations (% mom)	13.3	-9.4	0.9	-1.4	6.1	-4.7	7.1	1.2	-7.3	6.8
Car Registrations (% yoy)	-5.8	-12.5	-11.0	-4.8	-2.5	-1.5	7.0	10.9	0.1	4.7
Building Consents (% mom)	4.3	6.8	-1.0	0.8	5.2	12.7	-16.0	4.8	-10.3	-4.8
Building Consents (% yoy)	-5.9	-8.5	3.4	9.3	2.9	33.1	-4.1	-1.3	-15.6	-16.1
REINZ House Price (% yoy)	9.0	13.6	13.7	14.4	14.8	12.1	10.4	12.9	12.3	8.0
Household Lending Growth (% mom)	1.1	1.1	1.2	1.1	1.1	1.1	0.9	0.9	0.8	0.8
Household Lending Growth (% yoy)	13.0	13.1	13.3	13.5	13.5	13.5	13.5	13.4	13.1	12.9
Roy Morgan Consumer Confidence	136.8	133.8	129.3	128.6	122.1	121.0	121.1	122.4	121.3	122.0
NBNZ Business Confidence	..	-5.9	-12.5	-19.4	-48.3	-37.2	-38.5	-33.8	-26.5	-12.9
NBNZ Own Activity Outlook	..	25.7	24.1	22.5	7.8	14.8	12.4	16.7	17.2	20.3
Trade Balance (\$m)	-825	-127	60	-215	8	-518	-808	-945	-573	-690
Trade Balance (\$m annual)	-6013	-5767	-5776	-6024	-5900	-6226	-6340	-6334	-6282	-5798
ANZ World Commodity Price Index (% mom)	1.3	1.4	2.0	4.9	2.6	6.3	4.6	1.4	0.4	1.8
ANZ World Commodity Price Index (% yoy)	11.1	13.0	17.1	20.9	21.1	29.8	35.1	36.3	35.7	37.8
Net Migration (sa)	390	520	620	220	410	590	470	720	660	260
Net Migration (annual)	14116	13151	12081	11222	10682	10078	8966	8730	8309	7517

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Oct 07	Nov 07	3 Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
NZD/USD	0.760	0.767	0.762	0.760	0.740	0.710	0.680	0.660	0.640	0.630
NZD/AUD	0.847	0.841	0.862	0.800	0.771	0.763	0.756	0.759	0.762	0.768
NZD/EUR	0.534	0.525	0.521	0.517	0.507	0.500	0.489	0.489	0.485	0.488
NZD/JPY	88.1	86.4	84.7	83.6	79.9	75.3	72.1	71.3	70.4	71.2
NZD/GBP	0.372	0.370	0.371	0.369	0.361	0.351	0.342	0.340	0.333	0.335
NZ\$ TWI	71.1	70.7	70.6	69.2	67.2	65.2	63.2	62.5	61.6	61.7
NZ interest rates	Oct 07	Nov 07	3 Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
OCR	8.30	8.25	8.25	8.25	8.25	8.00	7.50	7.00	6.75	6.75
90 day bill	8.68	8.73	8.88	8.60	8.60	8.00	7.50	7.00	7.00	7.00
10 year bond	6.38	6.35	6.33	6.30	6.70	6.80	6.70	6.70	6.50	6.80
International	Oct 07	Nov 07	3 Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
US Fed funds	4.50	4.50	4.50	4.25	4.25	4.25	4.50	5.50	5.75	5.75
US 3-mth	4.89	4.95	5.13	4.50	4.40	4.65	5.00	5.75	6.10	6.00
AU cash	6.50	6.75	6.75	7.00	7.25	7.25	7.25	7.25	7.25	7.25
AU 3-mth	7.01	7.17	7.25	7.30	7.50	7.50	7.50	7.50	7.40	7.40

KEY RATES

	30 Oct	26 Nov	27 Nov	28 Nov	29 Nov	30 Nov
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
30 day bank bill	8.47	8.61	8.65	8.70	8.70	8.67
90 day bank bill	8.63	8.74	8.79	8.89	8.95	8.85
NZGB 07/09	7.12	7.37	7.34	7.38	7.42	7.43
NZGB 11/11	6.91	7.06	7.01	7.04	7.08	7.09
NZGB 04/13	6.80	6.84	6.77	6.81	6.85	6.86
NZGB 12/17	6.42	6.29	6.21	6.26	6.29	6.30
1 year swap	8.79	8.77	8.79	8.82	8.79	8.77
2 year swap	8.60	8.59	8.59	8.62	8.59	8.56
5 year swap	8.10	8.10	8.08	8.12	8.10	8.06
RBNZ TWI	71.3	70.0	69.7	69.8	70.8	71.3
NZD/USD	0.7701	0.7620	0.7590	0.7583	0.7695	0.7733
NZD/AUD	0.8345	0.8631	0.8634	0.8661	0.8709	0.8714
NZD/JPY	87.93	82.49	82.12	82.29	84.78	85.29
NZD/GBP	0.3748	0.3693	0.3661	0.3669	0.3703	0.3750
NZD/EUR	0.5344	0.5140	0.5101	0.5117	0.5186	0.5245
AUD/USD	0.9228	0.8829	0.8791	0.8755	0.8836	0.8874
EUR/USD	1.4410	1.4826	1.4878	1.4818	1.4838	1.4744
USD/JPY	114.18	108.25	108.20	108.52	110.17	110.30
GBP/USD	2.0546	2.0635	2.0733	2.0666	2.0783	2.0622
Oil	91.73	98.24	97.66	94.39	90.71	90.98
Gold	792.90	827.13	826.85	807.40	804.60	796.90
Electricity (Haywards)	2.93	4.38	4.74	4.40	4.70	4.78

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