

## TURNING POINT?

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### Page 2: Economic overview

- > While the RBNZ is now formally noting that rates will remain low for an extended period, the lack of follow through, particularly for the currency, must be respected. We'll once again be reviewing our currency forecasts in light of this. Flow-on from the G20 summit is encouraging, but we are coy saying it is indeed the turning point. The QSBO is expected to mirror the National Bank *Business Outlook* survey and flag six negative quarters of growth, rapidly loosening capacity measures, and rising unemployment.

### Page 5: Economic comment – NBNZ *Business Outlook* update

- > The March National Bank *Business Outlook* survey showed businesses having a tough time. Our NBBO composite indicator continues to flag further contractions in growth ahead, with weakness right across the board.

### Page 7: Economic comment – quarterly forecast summary

- > The NZ economy is de-leveraging. The sacrificial lamb in a de-leveraging world will be growth. We envisage a recovery gradually taking hold over 2010.

### Page 9: Economic comment – global watch

- > Again, there was a general theme of data coming out stronger than expected last week. Leading indicators such as global PMI surveys are suggesting that while the globe is still contracting, the rate of growth is slowing. Global labour markets continue to rapidly deteriorate though.

### Page 11: Interest rate strategy

- > Buoyant equity markets and a cautious air of optimism are putting upward pressure on global interest rates. And to be fair, there are some signs of stabilisation. But a full-blown recovery will be some time away, particularly in NZ as we work through the adjustment process. A higher NZD just delays this, and adds more credence to the RBNZ's warning.

### Page 12: Currency strategy

- > Risk was back in favour as the NZD roared to 0.5900 cents last week as the G20 sounded like they have a plan. This move occurred despite Dr Bollard suggesting rates will be lower for longer. Also genuine talk of US automakers forced into bankruptcy couldn't derail the rampant equity markets, which the currency is so highly correlated with. With a new financial year in Japan beginning and signs of Japanese money flowing our way, the question is how high can we go in the near-term?

### Page 13: Currency comment – effective exchange rate update

- > March was a complete reversal of February. A higher NZD in March more than offset gains in world commodity prices and ensured that all the commodity adjusted real effective exchange rates we monitor became more restrictive.

### Page 15: Data and event calendar

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## ECONOMIC OVERVIEW

While the RBNZ is now formally noting that rates will remain low for an extended period, the lack of follow through, particularly for the currency, must be respected. We'll once again be reviewing our currency forecasts in light of this. Flow-on from the G20 summit is encouraging, but we are coy saying it is indeed the turning point. The QSBO is expected to mirror the National Bank *Business Outlook* survey and flag six negative quarters of growth, rapidly loosening capacity measures, and rising unemployment.

### What's ahead?

- > **March quarter NZIER Quarterly Survey of Business Opinion (QSBO)** (Tuesday 1000 NZST). The general themes for this survey are likely to mirror the recent NBNZ *Business Outlook* surveys, namely activity indicators will remain at depressed levels. However, some of the gauges may bounce off the multi-decade lows recorded last quarter.
- > **March Electronic Card Transactions** (Thursday 1045 NZST). Higher petrol prices could see total retail spending rise in the month. However, the underlying trend will remain relatively weak.

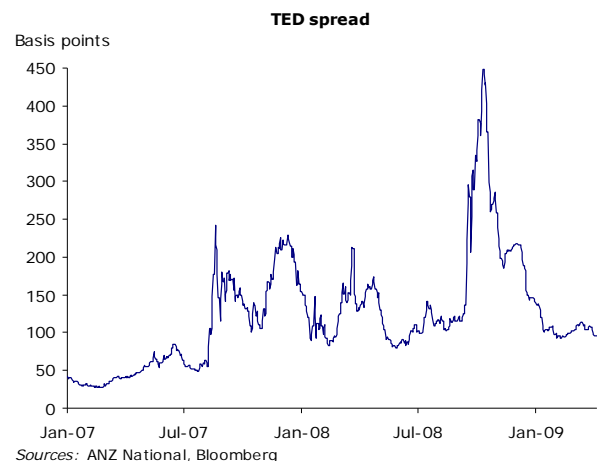
### What's the view?

*"...for an extended period"* – these four words were clearly the talking point last week, at least locally anyway. In an unusual move, RBNZ Governor Bollard released an unscheduled statement expressing his concern over the recent significant moves higher in longer-term wholesale interest rates. The message was pretty clear: *"...we believe the rise in longer-term interest rates is unwarranted and inconsistent with the monetary policy outlook. As indicated in our March Statement, we are projecting interest rates to remain at relatively low levels for an extended period."*

Regular readers of ours will be well aware that this was a step we believe the RBNZ needed to take. Monetary policy is not just about changes to the OCR, it is also about altering expectations for future policy moves. The rises in wholesale interest rates due to concern (or even panic) by retail borrowers that they had "missed the boat" on low long-term rates had almost become self-fulfilling and, along with increasing retail deposit rates, was placing further pressure on fixed lending rates. At a time when the economy remains very weak, these higher lending rates, along with recent rises in the NZD, had delivered a significant tightening in monetary conditions.

While initially gaining policy traction (the 2 year swap traded down to 3.65 and the NZ dollar fell a cent and a half), by the close of the week such loosening had pretty well been eroded. The 2 year swap is back up at 3.9 percent, and the NZD/USD at 0.585 cents. While we can be quick to surmise that such jawboning can have a limited shelf life, the reality is that NZ is simply being caught in the rip of wider global forces and trends, particularly in so far as the currency is concerned. And it's an area that continues to frustrate. With fiscal policy in a rating cut bind, and borrowing rates being determined by aggressive competition for deposits (a classic de-leveraging signal), a weaker currency is the remaining release valve for the economy. As we noted last week, we all know what needs to happen to the currency, but it is caught in the rip of need versus will. Last week's moves have us once again reviewing our currency forecasts.

The main focal point at present is obviously the flow-on from the G20 summit, which pundits have noted as marking a fundamental turning point for the global economy, and associated improvements in risk sentiment. To be fair, there is no doubting it is aggressive action, with a further USD1.1 trillion committed and accompanying substantial fiscal and monetary stimulus. It is coming at a time that the TED spread (which is the difference between the rate at which the US government can borrow and the rate at which US banks can borrow in the short-term) has been easing, which tells us that credit conditions are improving. Commodity prices have recovered somewhat. All encouraging news, although not perhaps if you are an exporter and noting the associated rise in the NZ dollar.



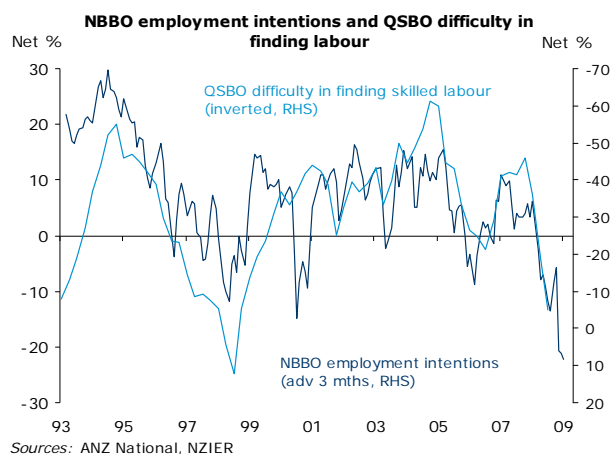
At this stage we have reservations about saying this is indeed the turning point. For one, the money being pumped into the IMF looks to be in anticipation of well-known problems in Eastern Europe, so it's about downside risk intervention as opposed to reflation. Global policy assistance also comes with hooks, with further regulation pending. While appropriate, the question many will no doubt be asking is how far this extends, and whether it

will cap the process of credit creation and facilitation – a key driver of medium-term growth. Abstracting from improved credit markets, we are mindful that it is household balance sheets that are in need of repair. In the current macro environment earnings remains under pressure, which will continue to accentuate rising unemployment and only make the household adjustment process that much more difficult. The global dataflow may have stabilised of late, but it still remains at depressed levels and points to further contraction in economic activity. Baltic freight rates eased last week. All up, the picture still looks muddled to us, with an adjustment process that has a way to go.

In so far as NZ and the global economy are concerned, we are monitoring two types of indicators. Those that are deeply cyclical, such as business confidence, house sales, building consents and consumer confidence. Seeing a turn or smaller rate of decline (which is slowly occurring) is the first step towards recovery. Some will reflect a pure base effect of falling off a cliff in the first place (such as house sales). But the next leg of measures are structural, namely the ratio of consumption as a share of GDP, the household savings rate, and composition to imports. These indicators need to improve before any recovery can take hold in a sustainable fashion. The same applies around the globe, and the interaction of the two can probably be characterised as the interaction between a bear market rally and a secular bull market. So while we may well be on the cusp of seeing improvements in indicators – which markets are trying to pre-empt and policymakers are trying to achieve – we need to appreciate the structural aspects before flagging a sustained turning point.

Turning to this week, the main focus locally will be on the NZIER's March quarter QSBO. As noted earlier, the broad themes from the survey are likely to mirror those from recent NBNZ *Business Outlook* results. That is, activity gauges will remain weak and highlight that the economy continues to contract. However, considering that some of the measures within last quarter's survey hit record lows (or at least multi-decade lows) we doubt they will deteriorate too much further, if at all. Just like the March *Business Outlook*, the key observation is likely to be stabilisation, but at very depressed levels. More specifically, we expect the domestic trade activity measure for the past three months to remain around -40. A lot of interest will centre on firms expectation for the June quarter. Another large negative and it is likely that the recession will extend to its sixth quarter. Profit expectations should remain downbeat, and firms will continue to lack the confidence to employ and invest.

Indicators of resource pressure are also likely to remain weak, particularly those relating to the labour market. We expect the difficulty in finding staff measures (both skilled and unskilled) to have improved, largely because firms are just not hiring at the moment. This portends of weaker wage outcomes over the coming year, and also a sharply higher unemployment rate. This is the biggest headwind for those advocating that the recent pick-up in housing market activity is set to be maintained.



The survey is also likely to confirm that inflation is no longer an immediate concern. Last quarter a net 3 percent of firms intended to reduce their selling prices over the coming three months. It is quite likely that on a net basis, pricing intentions will remain in negative territory.

On this note, our monthly inflation gauge recorded a subdued 0.1 percent increase in March, the smallest increase since the series began a year ago. Indeed, our inflation gauge was averaging around 0.4 percent a month over the first half of last year, then eased towards 0.2 percent since around August 2008. Ignoring seasonal spikes due to lumpy increases – such as when local authority rates or education fee increases come in – our gauge has picked up a definite easing in domestic inflation pressures. Our inflation gauge is implying a 0.8 percent print for March quarter non-tradable CPI.

	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non tradable CPI (q/q%)
Mar-08	0.4		1.1
Apr-08	0.3		
May-08	0.3		
Jun-08	0.4	1.0	0.9
Jul-08	1.0		
Aug-08	0.2		
Sep-08	0.2	1.4	1.3
Oct-08	0.2		
Nov-08	0.2		
Dec-08	0.2	0.7	0.8
Jan-09	0.4		
Feb-09	0.3		
<b>Mar-09</b>	<b>0.1</b>	0.8	

Internationally, it is a relatively quiet week on the data front for the world's major economies. However, it is a busy one across the Tasman. The RBA is due to make an interest rate announcement on Tuesday. Our Australian colleagues expect the Bank to once again pause, although it will be another close call. Remember – the RBNZ noted in their March *MPS* that competitiveness was a relevant issue in regard to interest rates, and hence close attention needs to be paid to the RBA. Australian March labour market data will also be a focus this week.

### Recent local data...

- > **Building Consents (February):** Total residential building consents rose 11.6 percent, although excluding apartments, consents only rose 0.3 percent.
- > **Credit Growth (February):** Total household claims rose by 0.2 percent.
- > **NBNZ Business Outlook (March):** Headline confidence improved marginally in the month. Own activity expectations, along with other activity measures, remain very subdued.
- > **ANZ Commodity Price Index (March):** The world price index rose 1.0 percent. In NZD terms, the index fell 3.4 percent.
- > **Crown Financial Statements (Eight Months to February):** An underlying operating surplus of \$49m was reported, compared with a forecast of \$1.8b.

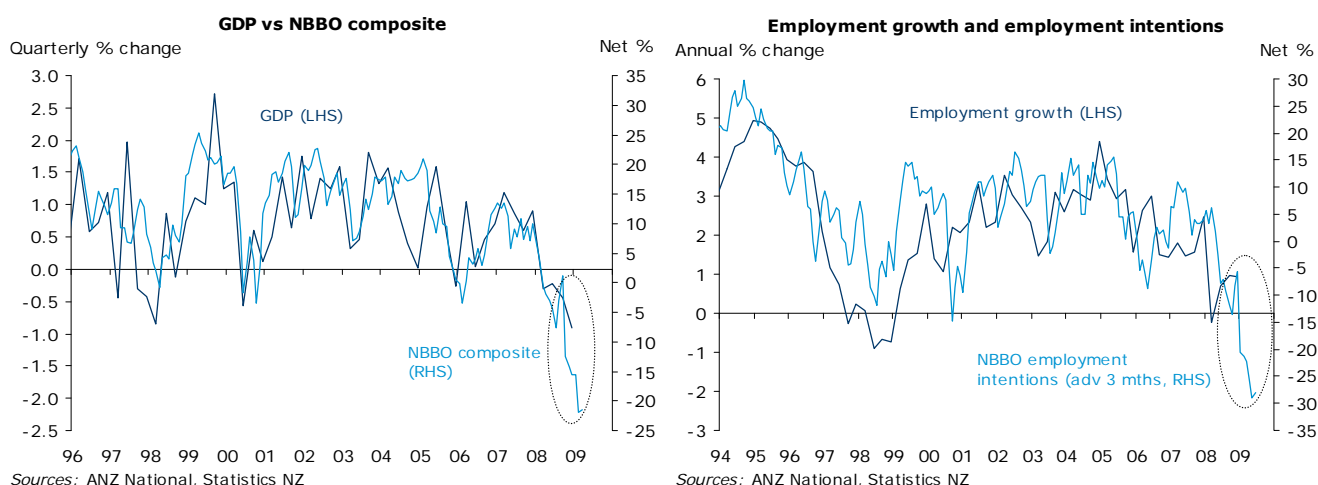
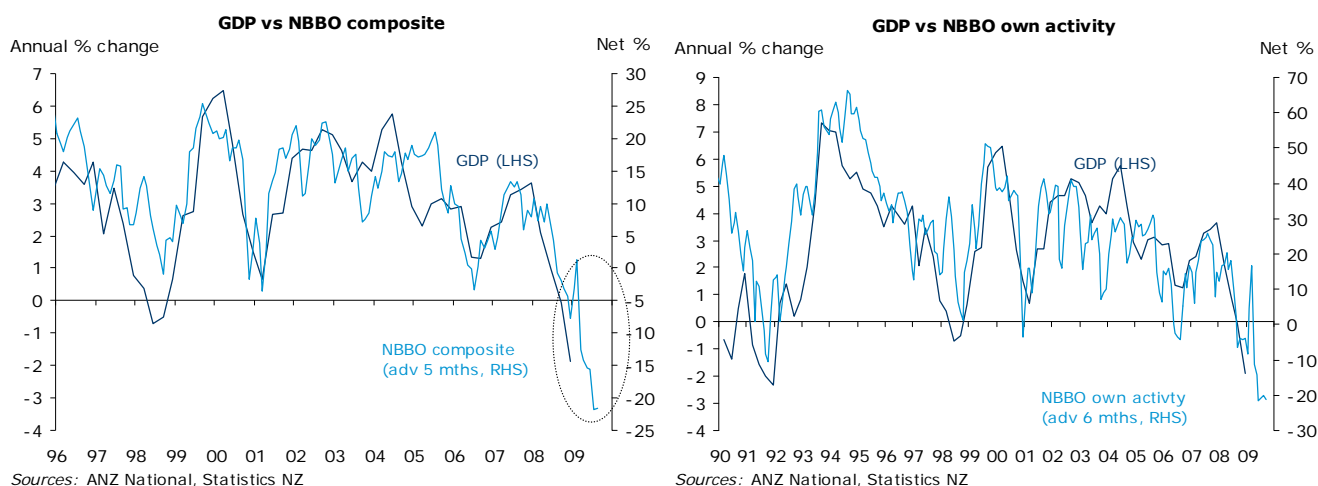
## NATIONAL BANK BUSINESS OUTLOOK UPDATE

The March National Bank *Business Outlook* survey showed businesses having a tough time. Our NBBO composite indicator<sup>1</sup> (which has a strong correlation with GDP growth) continues to flag further contractions in growth ahead, with weakness right across the board.

Interest rate cuts in March (with more flagged) and a lower currency during the period when the NBBO survey was taken failed to lift business sentiment. Though headline confidence improved a couple of points, own activity expectations fell slightly and investment intentions fell to record lows. Despite employment intentions and profit expectations improving a touch, they are still stuck at very depressed levels. Our NBBO composite indicator continues to point to GDP contracting in excess of 3 percent this year (in annual percent terms). It also flags the possibility that the -0.9 percent Q4 GDP print might not be the worst we'll see this cycle.

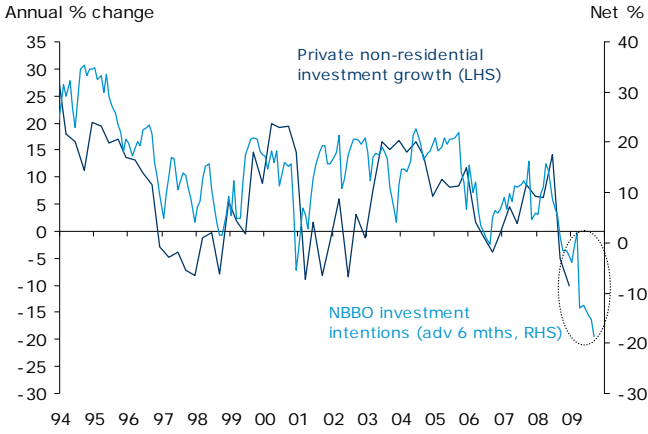
Businesses are firmly in cost control and cashflow preservation mode. Employment growth looks set to contract for most of this year, with a resulting rise in the unemployment rate. Private sector investment (ex-residential) look set for a freefall. Both cast doubt on the RBNZ's H2 economic rebound story in their March *Monetary Policy Statement*.

Looking at the sectoral breakdown, it was the same story again, with weakness across the board. Despite the sharp contractions already seen in manufacturing, more is pending – not surprising given the bleak global environment. The construction sector also faces more declines in activity. But we will be keeping an eye out on the services sector, which has managed to fare relatively better thus far. Our composite indicator suggests not for long though, and given it accounts for over 40 percent of GDP, could be the next big drag on growth.



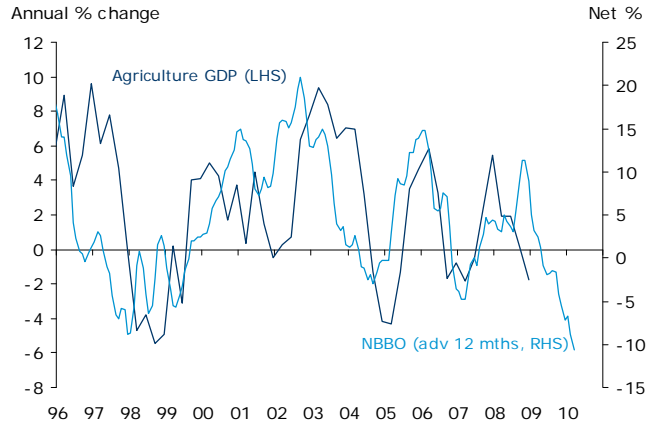
<sup>1</sup> Our composite measure uses the forward looking activity indicators from the National Bank Business Confidence Survey (own activity, investment intentions, employment intentions and profit expectations), combining them into a single index. The sectoral composite indicators use the same methodology as the economy-wide indicator.

**Investment growth and investment intentions**



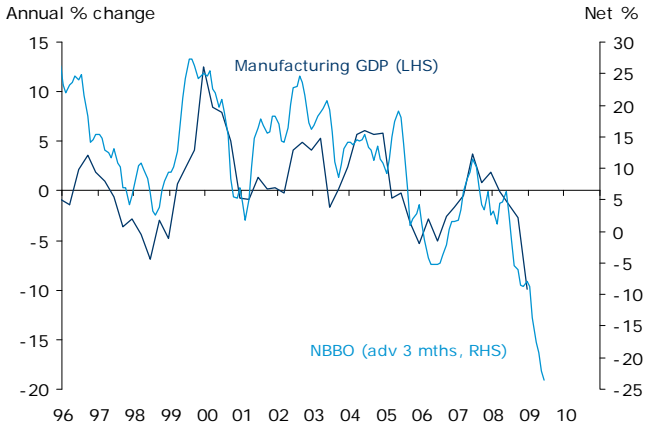
Sources: ANZ National, Statistics NZ

**Agriculture GDP vs NBBO composite (12% of GDP)**



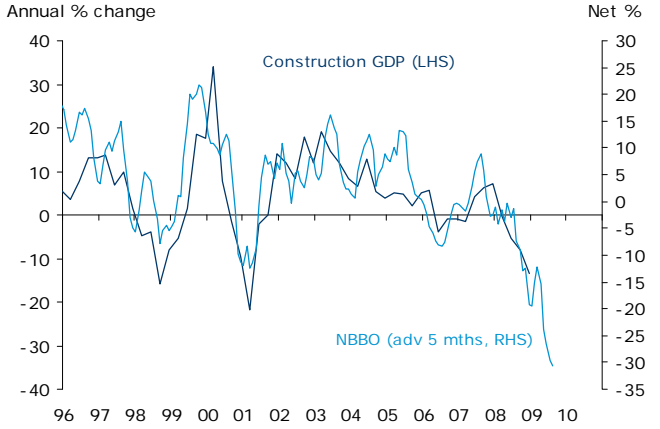
Sources: ANZ National, Statistics NZ

**Manufacturing GDP vs NBBO composite (9% of GDP)**



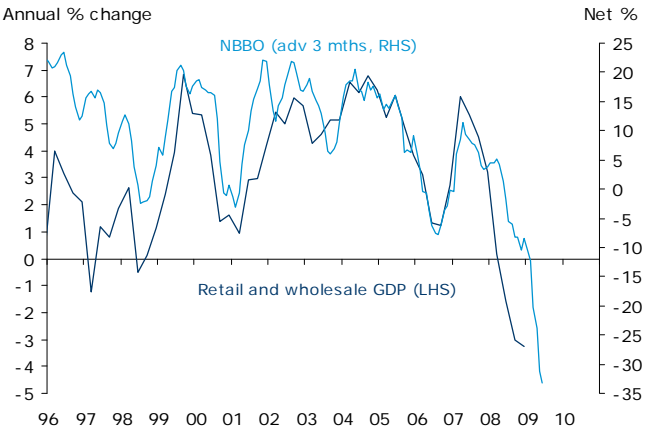
Sources: ANZ National, Statistics NZ

**Construction GDP vs NBBO composite (5% of GDP)**



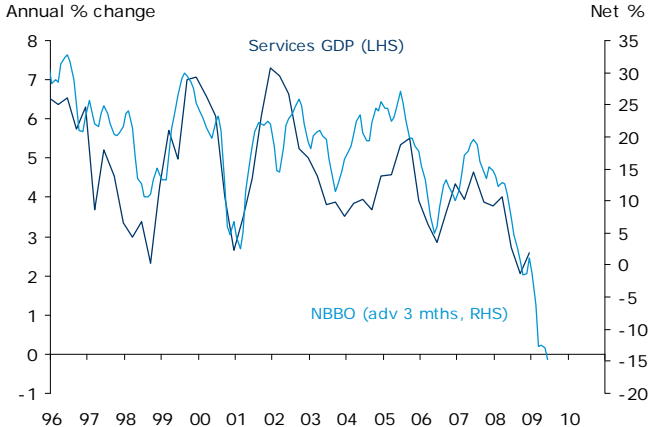
Sources: ANZ National, Statistics NZ

**Retail GDP vs NBBO composite (8% of GDP)**



Sources: ANZ National, Statistics NZ

**Services GDP vs NBBO composite (43% of GDP)**



Sources: ANZ National, Statistics NZ

## QUARTERLY FORECAST SUMMARY

**The NZ economy is de-leveraging. The sacrificial lamb in a de-leveraging world will be growth. We envisage a recovery gradually taking hold over 2010.**

Our latest *Quarterly Economic Forecasts* publication was released last Tuesday. Here are the key themes:

### **The outlook for 2009 is dominated by four dynamics.**

- > A credit centric shock. Despite signs that global credit spreads have eased and major central banks are embarking on quantitative easing to keep longer dated yields down, credit markets are still far from normal. It is no longer a question of price. We are in a world where capital is scarce, and this is not about to change for some time.
- > A deep global recession, which started at the end of last year and is set to last throughout most of this year.
- > A structural change in the pricing of risk, with a clear shift in the balance of power away from borrowers and towards savers and investors. NZ is already seeing this via changes in retail deposit rates, which now sit materially above the wholesale interest rate curve.
- > NZ's heavy reliance on offshore capital, which is evident via a large current account deficit and large net external liability position. The latter, at 93 percent of GDP, is a key source of vulnerability in the current global environment and needs to be reduced.

**The NZ economy faces a structural adjustment at a time when it is going through a cyclical downturn.** This structural adjustment sees the economy rebalancing away from debt-fuelled consumption towards more earnings centric growth (i.e. exports). This results in anaemic consumption growth for a number of years and a sharp improvement in the household savings rate.

**Consumers will no longer be the main driving force for growth.** This is despite improved disposable incomes from tax cuts and lower mortgage repayments. The deteriorating labour market and rising unemployment rate (we are forecasting close to 8 percent by the middle of 2010) increase the likelihood that households save any windfall gains, rather than spend them. We are forecasting a 1.4 percent fall in consumption for this calendar year, and only a mild 0.7 percent growth next calendar year.

### **Businesses will also have it tough, as both domestic and external demand wanes.**

Profitability is well down and firms have already

responded by a freeze on hiring and investment at the end of last year. Firms exposed to domestic demand (e.g. retail and housing) have fared poorly as the recession intensified, but exporters will increasingly feel the effects of the global recession in the form of reduced or cancelled export orders. Thankfully, business sector balance sheets are healthy. But with topline revenues continuing to head backwards, the recession lasting longer than normal and balance sheet preservation becoming a priority, the onus will increasingly turn towards costs in order for firms to stay profitable. We foresee negative employment growth throughout 2009, and likewise for business investment.

**We expect the NZ economy to contract by 2.8 percent this calendar year.** The economy is devoid of any engines of growth over 2009, as the combination of de-leveraging restrains the domestic economy, and the flow-on from a weak global environment hampers the export sector.

### **A weaker currency is a prerequisite to the adjustment process and the improvement (and recovery) taking on a sustained look.**

With fiscal policy somewhat constrained in its ability to provide additional counter-cyclical support and monetary policy losing traction given the reality that borrowing rates are being determined by aggressive competition for deposits, the critical shock absorber that must adjust is the currency. Our forecasts have the NZD falling to the mid 40s against the USD (although they are again under review as noted on page 2). It will not be a smooth ride down, with expected bouts of technical rebounds and short-squeezes along the way. On a trade weighted index (TWI) basis, we are forecasting a period where it goes below 50. But to be fair, a lot of this assessment is based on what we think needs to happen.

**Further monetary policy support will be delivered, but an end-point is fast approaching.** We envisage an OCR trough of 2.5 percent. As a small credit-dependent nation that is reliant on foreign savings, there is a limit to how low rates can go in order to continue to attract investment. "Competitiveness" in capital markets also needs to be maintained, with the RBA in particular needing to be watched. Rate cuts beyond 2.0 percent cannot be ruled out, but would likely come about if the economy deteriorates even more than expected or a higher NZD delays the rebalancing the economy requires.

### **We will be looking at a broad array of indicators over the coming months in terms of any recovery.**

We are in no doubt that we will see a recovery. Natural population growth, improved migration and easier monetary conditions are support factors that will gain traction as the global scene gradually improves. Business and consumer confidence, along with dwelling consents will be key

to watch. But not until we see a sustained improvement in structural indicators can we look towards any recovery taking on a sustained look. These indicators include the ratio of consumption as a share of GDP, better mix to imports (more investment, fewer consumption goods) and improved savings rate.

**The economy will come out of recession in the second half of the year, but a sustained recovery will be a mid-2010 story.** Though we expect positive growth rates from the second half of this year, it will not feel like a recovery initially. Indeed, growth will be subdued heading into early 2010 as the economy remains in the de-leveraging

process and some of the recovery will be merely statistical noise. It will not be until mid-2010, by which time the unemployment rate would have peaked and the global economy has started to mend, that the economy will embark on a sustained recovery and start posting strong quarterly growth rates. Pent up demand will fuel the initial rebound, as building consents play catch-up to underlying housing demand, consumers replace durable goods, and businesses upgrade their depreciated plant and machinery equipment. All are natural pro-cyclical forces that once unleashed will see the economy temporarily expanding well above its trend growth rate.

Calendar years	2006	2007	2008	2009(f)	2010(f)	2011(f)	2012(f)
<b>NZ Economy (annual average % change)</b>							
Real GDP	2.0	3.2	0.2	-2.8	2.4	4.7	2.9
Employment	2.1	1.8	0.6	-1.7	-0.7	2.1	2.2
Unemployment Rate (Dec qtr)	3.8	3.4	4.6	7.3	7.4	6.8	6.2
Terms of Trade	-3.0	5.8	2.7	-4.5	-1.9	4.0	3.9
<b>Global Growth (annual average % change)</b>							
United States	2.8	2.0	1.1	-3.1	1.2	2.6	2.9
Australia	2.8	4.0	2.1	-0.3	1.9	3.1	3.6
Japan	2.1	2.4	-0.7	-6.1	0.8	1.5	1.6
China	10.7	11.7	9.1	6.7	8.2	9.6	10.1
Trading Partner Growth	3.7	4.0	1.8	-1.9	2.1	3.4	3.8
<b>NZ Inflation (annual % change)</b>							
CPI Inflation	2.6	3.2	3.4	2.5	2.3	2.4	2.3
Non-tradable Inflation	3.8	3.5	4.3	2.0	2.3	2.7	3.2
Tradable Inflation	1.2	2.8	2.3	2.8	2.1	1.8	1.2
<b>NZ Financial Markets (end of December quarter)</b>							
TWI	68.0	71.6	55.1	49.9	49.5	54.0	61.0
NZD/USD	0.69	0.77	0.56	0.45	0.46	0.52	0.60
NZD/AUD	0.88	0.88	0.83	0.83	0.77	0.74	0.79
Official Cash Rate	7.3	8.3	5.0	2.5	4.0	5.8	5.8
90-day bank bill rate	7.7	8.9	5.2	3.0	4.7	6.0	6.0
10-year bond rate	5.8	6.4	4.9	4.3	5.7	6.4	6.2
<b>Fiscal and External Balance</b>							
Current Account Balance (\$m)	-14,200	-14,400	-16,000	-10,300	-10,000	-10,000	-9,600
as % of GDP	-8.7	-8.2	-8.9	-5.9	-5.5	-5.2	-4.7
Government OBEGAL (\$m)*	7,100	5,900	5,600	-4,200	-9,100	-10,000	-11,700
as % of GDP	4.5	3.5	3.1	-2.4	-5.2	-5.3	-5.9

\* Operating balance excluding gains and losses, June years

## GLOBAL DATA WATCH

Again, there was a general theme of data coming out stronger than expected last week. Leading indicators such as global PMI surveys are suggesting that while the globe is still contracting, the rate of growth is slowing. Global labour markets continue to rapidly deteriorate though.

Country/ Area	Indicator	Market	Actual	Last	Outturn vs market	
<b>Australia</b>	Private Sector Credit (Feb) – mom	0.5%	0.0%	0.6%	Weaker	
	Retail Sales (Feb) – mom	-0.5%	-2.0%	0.5%	Weaker	
	Building Approvals (Feb) – mom	1.5%	7.8%	-4.0%	Stronger	
	Trade Balance (Feb)	\$700M	\$2,109M	\$926M	Stronger	
<b>US</b>	S&P/CS Composite-20 (Jan) – yoy	-18.6%	-19.0%	-18.6%	Weaker	
	Chicago Purchasing Manager (Mar)	34.3	31.4	34.2	Weaker	
	Consumer Confidence (Mar)	28.0	26.0	25.3	Weaker	
	ISM Manufacturing (Mar)	36.0	36.3	35.8	Stronger	
	Construction Spending (Feb) – mom	-1.9%	-0.9%	-3.5%	Stronger	
	Pending Home Sales (Feb) – mom	0.0%	2.1%	-7.7%	Stronger	
	Continuing Claims (w/e Mar-22)	5,590K	5,728K	5,567K	Weaker	
	Factor Orders (Feb)	1.5%	1.8%	-3.5%	Stronger	
	Change in Non-Farm Payrolls (Mar)	-660K	-663K	-651K	In-line	
	Unemployment Rate (Mar)	8.5%	8.5%	8.1%	In-line	
	ISM Non-Manufacturing (Mar)	42.0	40.8	41.6	Weaker	
<b>Euro-zone</b>	Economic Confidence (Mar)	65.4	64.6	65.3	Weaker	
	CPI Estimate (Mar) – yoy	0.7%	0.6%	1.2%	Weaker	
	PMI Manufacturing (Mar F)	34.0	33.9	34.0	In-line	
	Unemployment Rate (Feb)	8.3%	8.5%	8.3%	Weaker	
	ECB Interest Rate	1.00%	1.25%	1.50%	Stronger	
	PMI Services (Mar F)	40.1	40.9	40.1	Stronger	
<b>UK</b>	Net Consumer Credit (Feb)	0.4B	-0.2B	0.2B	Weaker	
	Mortgage Approvals (Feb)	34K	38K	32K	Stronger	
	PMI Manufacturing (Mar)	35.0	39.1	34.7	Stronger	
	Nationwide House Prices (Mar) – mom	-1.5%	0.9%	-1.9%	Stronger	
	PMI Construction (Mar)	27.8	30.9	27.8	Stronger	
	PMI Services (Mar)	43.5	45.5	43.2	Stronger	
<b>Japan</b>	Industrial Production (Feb P) – mom	-9.1%	-9.4%	-10.2%	Weaker	
	Jobless Rate (Feb)	4.3%	4.4%	4.1%	Weaker	
	Housing Starts (Feb) – yoy	-17.7%	-24.9%	-18.7%	Weaker	
	Household Spending (Feb) – yoy	-4.7%	-3.5%	-5.9%	Stronger	
	Tankan Large Manufacturers Index (1Q)	-55	-58	-24	Weaker	
<b>Asia Ex-Japan</b>						
	<i>China</i>	PMI Manufacturing (Mar)	-	52.4	49.0	-
	<i>Singapore</i>	M2 Money Supply (Feb) – mom	-	11.2%	12.8%	-
		Purchasing Managers Index (Mar)	45.6	47.1	45.0	Stronger
	<i>South Korea</i>	Industrial Production (Feb) - mom	1.1%	6.8%	1.6%	Stronger
		Ext Trade – Export (Mar) – yoy	-21.5%	-21.2%	-18.3%	In-line
		Ex Trade – Imports (Mar) – yoy	-33.7%	-36.0%	-30.9%	Weaker

Continued over page

Country/ Area	Indicator	Market	Actual	Last	Outturn vs market
<i>South Korea cont.</i>	CPI (Mar) – mom	0.5%	0.7%	0.7%	Stronger
<i>Hong Kong</i>	Retail Sales - Volume (Feb) – yoy	-3.0%	-13.8%	5.4%	Weaker
<i>Philippines</i>	M3 Money Supply (Feb) – yoy	-		16.1%	-
<i>India</i>	Current Account Balance (4Q)	-\$8.35B	-\$14.64B	-\$12.83B	Weaker
	Exports (Feb) – yoy	-	-21.7%	-16.0%	-
	Imports (Feb) – yoy	-	-23.3%	-18.2%	-
<i>Indonesia</i>	Bank of Indonesia Reference Rate	7.50%	7.50%	7.75%	In-line
<i>Thailand</i>	CPI (Mar) – mom	0.3%	0.5%	1.0%	Stronger
<i>Malaysia</i>	Unemployment Rate (4Q)	-	3.1%	3.1%	-
	M3 Money Supply (Feb) – yoy	-	7.7%	9.0%	-
	Exports (Feb) - yoy	-23.5%	-15.9%	-27.8%	Stronger
	Imports (Feb) - yoy	-28.0%	-27.3%	-30.4%	In-line

## INTEREST RATE STRATEGY

**Buoyant equity markets and a cautious air of optimism are putting upward pressure on global interest rates. And to be fair, there are some signs of stabilisation. But a full-blown recovery will be some time away, particularly in NZ as we work through the adjustment process. A higher NZD just delays this, and adds more credence to the RBNZ's warning.**

### Market themes...

- > The RBNZ have made it clear that the OCR will remain "at relatively low levels for an extended period". Yet the market remains cautious, buoyed by optimism offshore.
- > However bond supply, residual mortgage paying interest, and higher global interest rate threatens to muddy the waters.
- > The Q1 QSBO survey (due tomorrow) won't have the same impact as the Q4 survey, but it will resonate with the NBNZ survey, confirming that the economy has yet to find a base.
- > Expect the RBA decision tomorrow to be pivotal for near term direction. A (surprise) cut would pave the way for more easing to be priced in.

### Review and outlook...

Early signs of stabilisation and optimism that the collective response of governments across the globe will lessen the severity of the downturn are starting to put significant pressure on long term interest rates. The post G-20 environment has a decidedly upbeat feel to it. While lagging indicators like unemployment point to continued stress, equity markets appear confident that the worst is behind us. For bond markets, this is compounded by the likelihood that despite assurances, inflation will rise over the next few years as governments look to deflate their debt. We remain sceptical about prospects, but nonetheless, at this critical juncture it is important that markets don't over-react: doing so could only stamp out any nascent recovery.

In the NZ context, the most obvious threat to the recovery comes from mortgage fixing behaviour. Despite the RBNZ's affirmation that the OCR is set to remain low for a long time, households continue to be fearful that rates may rise. As the resultant mortgage fixing activity gets hedged in the swap market, this puts more pressure on swap rates, which could snowball again, as they did two weeks ago. So while lower interest rates are the tonic households need right now, their collective behaviour is putting it even further out of reach.

Looking ahead, we expect the situation to settle down. And while it's understandable that people are nervous, unlike earlier episodes, this time the RBNZ is threatening to keep rates low, not high!

### Borrowing strategies we favour at present

The RBNZ have clarified their position, and it is crucial that borrowers understand this message. While it may be the case that term swap rates have seen their lows, with the OCR set to remain low for an extended period, we see no benefit in chasing the market higher. We therefore favour keeping duration short relative to benchmark, and can only envisage making significant changes to this call once we see evidence of the economy stabilising.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↓↓	The market hasn't given the RBNZ enough respect.
NZ data	↔/↓	QSBO to echo the NBBO survey, and won't be pretty.
Fed Funds/ front end	↔	Fed not really in the picture. ECB disappoints.
RBA	↔/↓	While most expect a pause, a cut is still quite possible.
US 10 year	↔/↓	Bond yields have retraced enough, and we remain equity market sceptics.
NZ swap curve	↔/↑	Flattening complete. Bullish global bond view and RBNZ suggest steeper curve.
Flow	↔/↓	Steeper mortgage curve should put paid to paying.
Technicals	↔/↑	Lack of downward swap momentum disconcerting.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 30-Apr-09	-26	-28
Thu 11-Jun-09	-40	-41
Thu 30-Jul-09	-43	-41
Thu 10-Sep-09	-41	-40
Thu 29-Oct-09	-35	-39
Thu 10-Dec-09	-25	-29
Thu 21-Jan-10	-19	-16

### Trading themes we favour at present

Markets are in a highly stressed state despite the RBNZ's commitment to keeping the OCR low. And with so little priced in relative to our projections and the RBNZ's, we expect short end swap rates to rally strongly over the next few months. Households may be nervous that rates may be heading higher, but now that most lenders have hiked their 5yr mortgage rates, the mortgage curve is so steep that pricing will limit long end paying. However, supply and global pressures are likely to keep the long end higher, and should see the 2yr/10yr steepen back to around +200bps. With too much easing (28bps) priced in for the April decision, and not enough over the remainder of the cycle (41bps), consider 2mth - 12mth OIS inverters at -8bps, targeting -25bps.

## CURRENCY STRATEGY

Risk was back in favour as the NZD roared to 0.5900 cents last week as the G20 sounded like they have a plan. This move occurred despite Dr Bollard suggesting rates will be lower for longer. Also genuine talk of US automakers forced into bankruptcy couldn't derail the rampant equity markets, which the currency is so highly correlated with. With a new financial year in Japan beginning and signs of Japanese money flowing our way, the question is how high can we go in the near-term?

### Market themes...

- > RBA and OSBO both out this week. The market is divided on the former at between a pause and 50bp cut, and promises fireworks.
- > Quantitative easing – ECB looking into it. Who's next? Not us.
- > Equity markets roar – is risk appetite returning?

### Review and outlook...

The NZD continued its drive higher with a stunning rally from 0.5530 to 0.5900. This move was in the context of the USD index weakening against all major currencies as the G20 devised, and more importantly agreed upon, a plausible rescue plan for emerging markets via the IMF. Couple this with QE and it suggests the commodity currencies with inbuilt inflation protection will perform.

As US data showed signs of not getting worse, money has to leave the short term US Treasury market and go to work. April is the start of a new reporting period and fund managers cannot afford to miss a potential rebound. Equities have come back a long way and higher yield should now be required.

So the NZD has now hit the target levels of 0.5850/0.5900 and we are looking for reasons to sell. The problem we have is that right now they aren't present. Dr Bollard has fired a salvo at the tightening monetary conditions and missed badly, with the market listening for only 24 hours. Early indications are that Japan is looking for yield again as they begin a new financial year and technically the NZDJPY can rally as high as 68.00 with little reason to stop it. North Korean missile launches can't help the yen (though note that July is the monster month for Uridashi maturities). NZD now has good support at 0.5780 and we treat this as pivotal with resistance at 0.5900 the critical topside level. A daily close of above 0.5900 could target a rally as high as 0.6450 on technicals, before the gravity of the domestic fundamental situation takes

hold. If the VIX index breaks 39.0/38.0 major support, currently at 39.7, another large move into risk can occur. NZDAUD to us looks very comfortable at current levels and it would take a surprise from the RBA to shake us from the 0.800/0.8300 range this week.

A final note of caution is that the rating agencies (not to mention the RBNZ and NZ government) cannot like the direction the NZD is heading. But the government's strong fiscal starting point may buy us time until the May *Budget* before a potential downgrade becomes a focus.

### NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Back in the fair value zone.
Yield	↓	RBNZ to head further below RBA?
Commodities	↔	Both NZ and AU's commodities correcting higher.
Partial indicators	↔/↓	NZ data still worse than Australia's.
Technicals	↔	0.8000 to 0.8300 range.
Sentiment	↔/↑	People long AUD vs NZD but getting squeezed.
Other	↔	Markets seem comfortable at current levels.
<b>On balance</b>	↔	<b>RBA to decide near-term direction.</b>

### NZD vs USD: monthly directional gauges

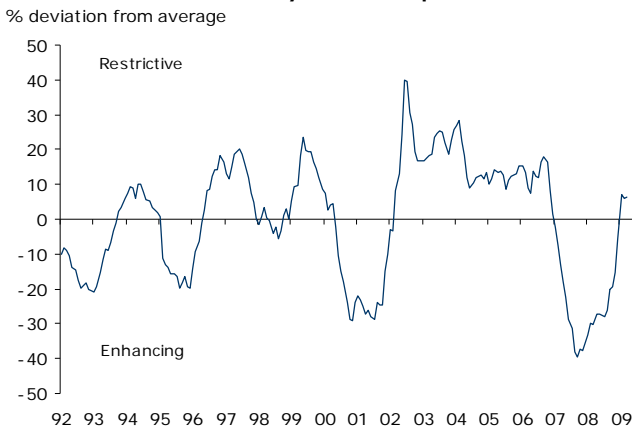
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Around long term average
Fair value – short-term	↓	Above short-term fair value ranges.
Yield	↔/↑	Differentials widening after recent NZ rates move.
Commodities	↔/↑	NZ commodities look to have bottomed.
Risk aversion	↔/↑	VIX index looking to break support at 39. This would be supportive of NZD.
Partial indicators	↔/↓	US data look to have stabilised, NZ's not yet.
Technicals	↔	0.5780-0.5900 key this week
AUD	↔	RBA to dictate.
Sentiment	↑	Improved after G20.
Other	↔/↑	Reasons to sell NZD just not there at the moment.
<b>On balance</b>	↔	<b>Risk of another push higher in the near-term.</b>

### EFFECTIVE EXCHANGE RATES UPDATE

We present an update of our real effective exchange rate measures across New Zealand's main export industries. The measures takes into account the world prices of our exports (commodity prices in the case of commodity exporters), adjusted for currency movements based on their destinations.

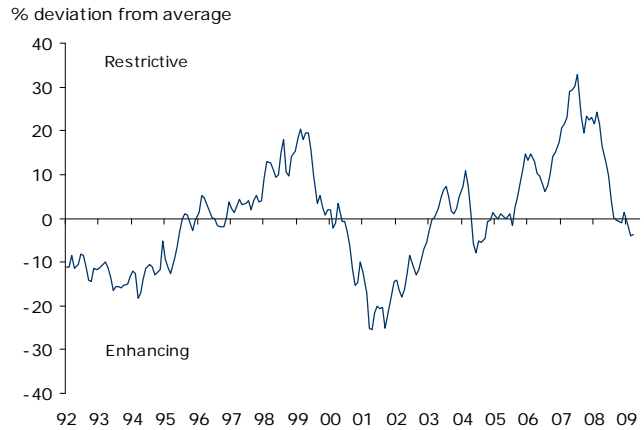
March was a complete reversal of February. A higher NZD in March more than offset gains in world commodity prices and ensured that all the commodity adjusted real effective exchange rates we monitor became more restrictive, although the moves for the dairy and meat sectors were relatively minor. The largest move was in the forestry sector, where sharply lower world prices – compounded by a higher NZD (particularly against the yen) – led to conditions becoming even more restrictive. In fact, the sector's effective exchange rate is now back to record high levels. Conditions for the crude, dairy and manufacturing sectors also remain restrictive, while horticulture, seafood and services face "enhancing" conditions. As we mentioned last month, we shouldn't lose sight of the fact that these measures are a gauge of "price". They do not directly take into account "demand". The weak global backdrop reinforces how a higher NZD is doing the economy few favours at present.

**Sector: Dairy ≈ 18% of exports**



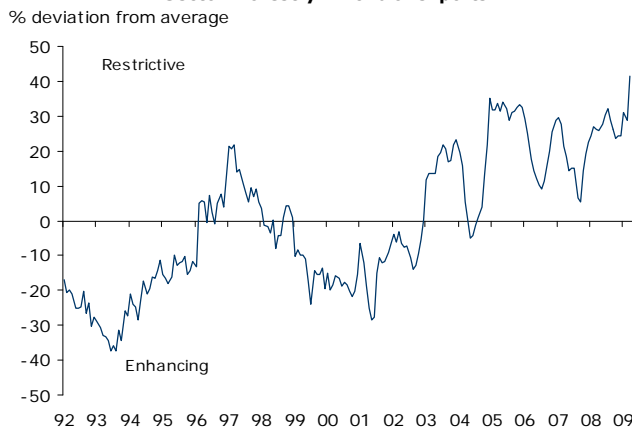
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Meat ≈ 8% of exports**



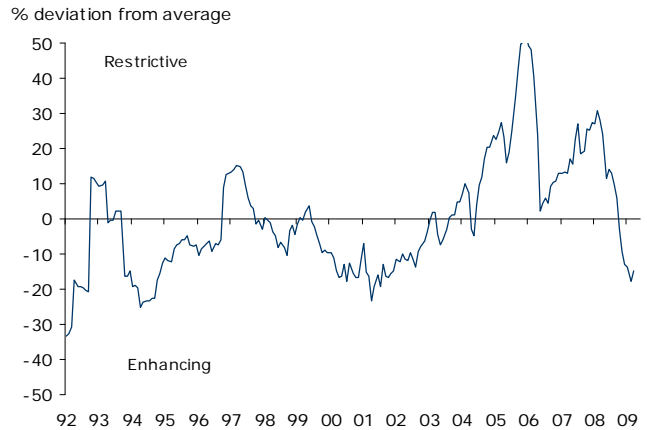
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Forestry ≈ 10% of exports**



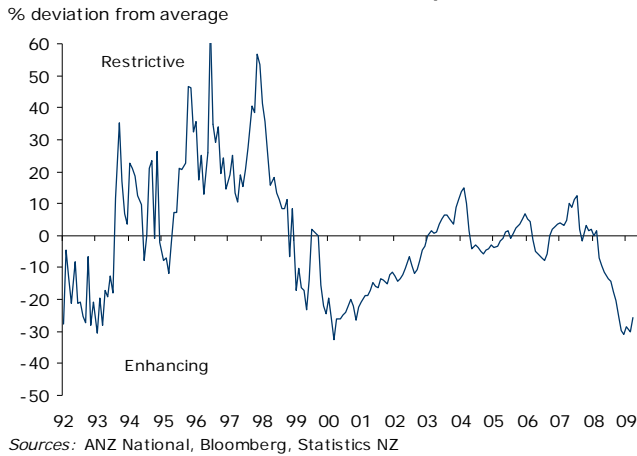
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Horticulture ≈ 4% of exports**

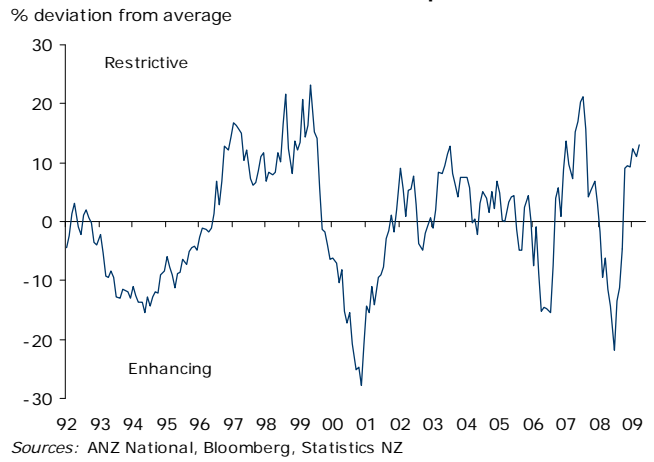


Sources: ANZ National, Bloomberg, Statistics NZ

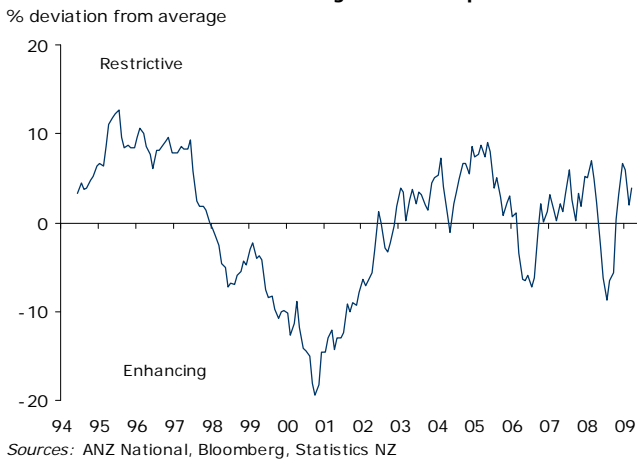
**Sector: Seafood  $\approx$  3% of exports**



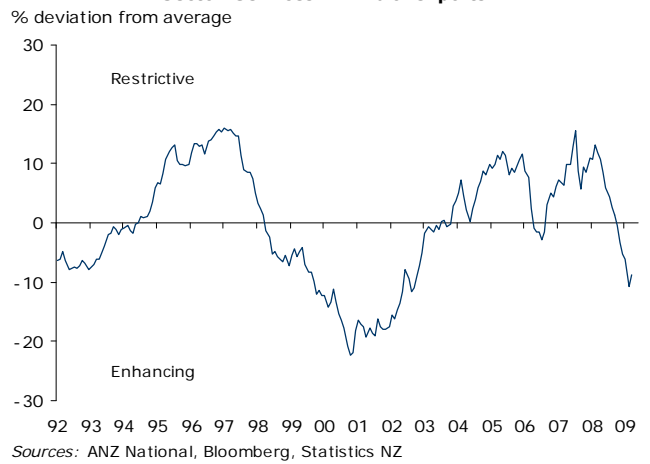
**Sector: Crude  $\approx$  5% of exports**



**Sector: Manufacturing  $\approx$  20% of exports**



**Sector: Services  $\approx$  24% of exports**



## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
6-Apr	AU	AiG Performance of Construction Index (Mar)	-	29.5	11:30
		TD Securities Inflation (Mar) – mom	-	0.7%	11:30
		ANZ Job Advertisements (Mar) – mom	-	-10.4%	13:30
	JN	Leading Index CI (Feb P)	75.3	77.2	17:00
		Coincident Index CI (Feb P)	86.9	89.6	17:00
	EC	ECB's Bini Smaghi Speaking in Brussels	-	-	20:20
		Sentix Investor Confidence (Apr)	-40.7	-42.7	20:30
		PPI (Feb) - mom	-0.5%	-0.8%	21:00
		Retail Sales (Feb) - mom	-0.4%	0.1%	21:00
7-Apr	US	Fed Governor Warsh Speaks on Financial Markets in Washington	-	-	05:00
	<b>NZ</b>	<b>NZIER Business Opinion Survey (1Q)</b>	<b>-</b>	<b>-64</b>	<b>10:00</b>
	JN	Official Reserve Assets (Mar)	-	\$1009.4B	11:50
		BoJ Interest Rate Announcement	0.10%	0.10%	/2009
	AU	RBA Interest Rate Announcement	3.25%	3.25%	16:30
		Foreign Reserves (Mar)	-	48.3B	18:30
	UK	Industrial Production (Feb) - mom	-1.2%	-2.6%	20:30
		Manufacturing Production (Feb) - mom	-1.5%	-2.9%	20:30
	EC	GDP s.a. (4Q) - qoq	-1.5%	-1.5%	21:00
8-Apr	US	Consumer Credit (Feb)	-\$3.0B	\$1.8B	07:00
	UK	Nationwide Consumer Confidence (Mar)	45	43	11:01
	JN	Adjusted Current Account Total (Feb)	¥508.8B	¥258.0B	11:50
		BoJ Monthly Report	-	-	17:00
		Eco Watchers Survey: Current (Mar)	20.9	19.4	17:00
		Eco Watchers Survey: Outlook (Mar)	-	26.5	17:00
	AU	Westpac Consumer Confidence (Apr)	-	-0.2%	12:30
		Home Loans (Feb)	2.0%	3.5%	13:30
		Investment Lending (Feb)	-	-3.8%	13:30
		Value of Loans (Feb) – mom	-	2.3%	13:30
	GE	Trade Balance (Feb)	7.5B	8.5B	18:00
		Current Account (Feb)	5.8B	4.2B	18:00
		Imports s.a. (Feb) - mom	-2.3%	-0.8%	18:00
		Exports s.a. (Feb) - mom	-3.3%	-4.4%	18:00
		Factory Orders (Feb) - mom	-2.1%	-8.0%	22:00
9-Apr	US	Wholesale Inventories (Feb)	-0.6%	-0.9%	02:00
		Fed Releases Minutes from March 17-18 FOMC Meeting	-	-	06:00
	<b>NZ</b>	<b>Electronic Card Transactions (Mar)</b>	<b>-</b>	<b>-</b>	<b>10:45</b>
	JN	Machine Orders (Feb) - mom	-7.0%	-3.2%	11:50

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Date	Country	Data/Event	Mkt.	Last	Time (NZST)
9-Apr cont.	JN	Machine Tool Orders (Mar P) - yoy	-	-84.4%	18:00
	AU	Consumer Inflation Expectation (Apr)	-	2.2%	13:00
		Employment Change (Mar)	-25.0K	1.8K	13:30
		Full Time Employment Change (Mar)	-10.0K	-53.8K	13:30
		Part Time Employment Change (Mar)	-20.0K	55.6K	13:30
		Unemployment Rate (Mar)	5.4%	5.2%	13:30
		Participation Rate (Mar)	65.4%	65.5%	13:30
	GE	Consumer Price Index (Mar F) - mom	-0.1%	0.6%	18:00
		Industrial Production (Feb) - mom	-3.0%	-7.5%	22:00
	EC	ECB Publishes April Monthly Report	-	-	20:00
	UK	PPI Input (Mar)	0.9%	0.6%	20:30
		PPI Output (Mar)	0.1%	0.1%	20:30
		PPI Output Core (Mar)	0.1%	0.0%	20:30
		Total Trade Balance	-£3450m	-£3585m	20:30
	UK	BoE Interest Rate Announcement	0.50%	0.50%	23:00
10-Apr	US	Trade Balance (Feb)	-\$36.0B	-\$36.0B	00:30
		Import Price Index (Mar) - mom	0.9%	-0.2%	00:30
		Initial Jobless Claims (w/e Apr-5)	660K	669K	00:30
		Continuing Claims (w/e Mar-29)	5800K	5728K	00:30
		Fed's Stern Speaks in Sioux Falls, South Dakota	-	-	04:15
		Fed's Hoenig Speaks in Tulsa, Oklahoma, on US Economy	-	-	05:00
	EC	ECB's Mersch Speaks At Event In Luxembourg	-	-	04:00
	JN	BoJ Monetary Policy Meeting Minutes for March	-	-	11:50
		Money Stock M3 (Mar) - yoy	1.2%	1.1%	11:50
11-Apr	US	Monthly Budget Statement	-\$150.0B	-\$48.2B	06:00

Key: AU: Australia, EC: 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 QSBO this week is likely to highlight a still very weak and contracting economy, although there may be some evidence that a base is beginning to form. Further out, poor labour market data will reinforce that this economic adjustment will be protracted.

Date	Data/Event	Economic Signal	Comment
Tue 7 Apr (10.00)	NZIER QSBO (Mar qtr)	Bottom found?	Domestic trading activity, investment and employment intentions, and profitability are all expected to remain at depressed levels. But this reading signal that we are close to the bottom in the current cycle.
Thu 9 Apr (10.45)	Electronic Card Transactions (Mar)	Sitting on the sidelines	A small rebound in the value of ECT transactions expected, though the overall picture is one of weakness in consumer spending.
Tue 14 Apr (10.45)	Retail Sales (Feb)	Petrol fuelled rebound	Higher petrol prices in February will inflate headline retail sales, though this will be offset by further declines in car sales. Core spending to remain weak.
Fri 17 Apr (10.45)	CPI (Mar qtr)	Inflation under control	A 0.3 percent increase is expected, but apart from government related increases (tax indexation and education fees increases), inflation is well under control.
Tue 21 Apr (10.45)	International Travel and Migration (Mar)	Positive migration, but less visitors	Net migration inflows likely to remain positive as less NZer's choose to leave. We are also watching for an influx of ex-pats returning home, although there is little evidence of this yet. Tourism inflows will remain under pressure.
Wed 29 Apr (10.45)	Overseas Merchandise Trade (Mar)	Signs of rebalancing	While the weak global backdrop is impacting export growth, import growth is slowing faster as the domestic economy de-leverages. We expect another monthly trade surplus.
Wed 29 Apr (15.00)	Credit Growth (Mar)	Clear signs of de-leveraging	Household credit growth to remain subdued.
Wed 29 Apr (15.00)	NBNZ <i>Business Outlook</i> (Apr)	-	-
Thu 30 Apr (09.00)	RBNZ <i>OCR Review</i>	25bp cut	At the March <i>MPS</i> the RBNZ signalled a more gradual pace to future easing and at this stage we expect a 25bp cut. However, the bias is for them to do more, particularly given the higher NZD.
Thu 30 Apr (10.45)	Building Consents Issued (Mar)	A base?	We expect a base to begin to form around current depressed levels.
Mon 4 May (10.45)	LCI & QES (Mar qtr)	Past the peak	On an annual sense, wage growth will remain elevated, but there will be increasing evidence that wage pressures are easing.
Thu 7 May (10.45)	Household Labour Force Survey (Mar qtr)	Reversing the surprise	Following last quarter's surprise on employment, we expect a sharp unwind in the quarter. The unemployment rate will continue to head higher.
<b>On Balance</b>		<b>Flow-on from the global scene in the dataflow.</b>	<b>We are detecting a base effect in some data, which suggest the June quarter is the nadir in the cycle. But the jury is out on the speed of recovery.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
GDP (% qoq)	-0.3	-0.2	-0.5	-0.9	<b>-1.5</b>	<b>-0.5</b>	<b>0.0</b>	<b>0.1</b>	<b>0.5</b>	<b>1.2</b>
GDP (% yoy)	2.1	1.0	-0.1	-1.9	<b>-3.1</b>	<b>-3.3</b>	<b>-2.9</b>	<b>-1.9</b>	<b>0.1</b>	<b>1.8</b>
CPI (% qoq)	0.7	1.6	1.5	-0.5	<b>0.3</b>	<b>0.8</b>	<b>0.6</b>	<b>0.7</b>	<b>0.5</b>	<b>0.5</b>
CPI (% yoy)	3.4	4.0	5.1	3.4	<b>3.0</b>	<b>2.2</b>	<b>1.3</b>	<b>2.5</b>	<b>2.7</b>	<b>2.4</b>
Employment (% qoq)	-1.3	1.2	0.1	0.9	<b>-1.5</b>	<b>-1.0</b>	<b>-0.8</b>	<b>-0.4</b>	<b>0.0</b>	<b>0.1</b>
Employment (% yoy)	-0.2	0.7	1.0	0.9	<b>0.7</b>	<b>-1.5</b>	<b>-2.4</b>	<b>-3.7</b>	<b>-2.2</b>	<b>-1.1</b>
Unemployment Rate (% sa)	3.7	3.9	4.2	4.6	<b>5.1</b>	<b>6.1</b>	<b>6.8</b>	<b>7.3</b>	<b>7.7</b>	<b>7.8</b>
Current Account (% GDP)	-8.0	-8.4	-8.7	-8.9	<b>-8.6</b>	<b>-7.3</b>	<b>-6.5</b>	<b>-5.8</b>	<b>-6.0</b>	<b>-6.3</b>
Terms of Trade (% qoq)	4.2	-0.4	-1.0	-0.9	<b>-3.0</b>	<b>-3.2</b>	<b>-3.0</b>	<b>-2.2</b>	<b>-1.6</b>	<b>-0.9</b>
Terms of Trade (% yoy)	11.6	10.7	5.8	1.8	<b>-5.2</b>	<b>-7.9</b>	<b>-9.8</b>	<b>-10.9</b>	<b>-9.6</b>	<b>-7.4</b>

## KEY ECONOMIC INDICATORS

	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09
Retail Sales (% mom)	0.7	-0.7	0.3	0.3	-1.3	0.0	-0.7	-1.1	..	..
Retail Sales (% yoy)	1.5	2.5	-0.9	2.2	0.7	-4.1	-0.9	-3.7	..	..
Credit Card Billings (% mom)	-0.1	0.2	-0.4	1.3	-1.6	-0.9	-2.3	1.8	0.5	..
Credit Card Billings (% yoy)	3.9	4.2	2.4	2.5	1.1	-0.9	-3.9	-2.2	-1.9	..
Car Registrations (% mom)	1.5	-7.1	-3.5	10.7	-0.6	-20.0	12.8	-13.8	-15.1	6.8
Car Registrations (% yoy)	-15.9	-27.1	-30.5	-15.6	-19.9	-34.4	-23.7	-36.5	-44.6	-32.9
Building Consents (% mom)	-13.0	-1.0	-6.9	8.2	-19.5	3.6	-7.0	-13.1	11.7	..
Building Consents (% yoy)	-45.8	-34.4	-43.2	-28.4	-42.8	-39.7	-41.4	-51.7	-40.0	..
REINZ House Price (% yoy)	-2.2	-1.4	-5.7	-6.1	-4.3	-4.1	-4.8	-4.4	-2.2	..
Household Lending Growth (% mom)	0.2	0.3	0.4	0.3	0.2	-0.1	0.1	0.2	0.2	..
Household Lending Growth (% yoy)	8.4	7.7	7.2	6.6	5.9	4.8	4.2	3.8	3.1	..
Roy Morgan Consumer Confidence	86.5	83.9	91.4	108.6	99.7	99.0	102.9	103.7	98.8	94.7
NBNZ Business Confidence	-38.7	-43.2	-20.5	1.6	-42.3	-43.0	-35.0	..	-41.2	-39.3
NBNZ Own Activity Outlook	-4.0	-8.2	4.7	16.7	-11.4	-14.1	-21.5	..	-20.1	-21.2
Trade Balance (\$m)	-215	-797	-848	-1252	-994	-594	-342	-104	489	..
Trade Balance (\$m annual)	-4478	-4468	-4369	-5048	-5269	-5234	-5614	-5408	-5161	..
ANZ World Commodity Price Index (% mom)	0.0	1.8	-3.4	-5.1	-7.6	-7.4	-7.4	-4.3	-4.6	1.0
ANZ World Commodity Price Index (% yoy)	11.6	8.7	3.5	-2.1	-11.1	-18.3	-24.3	-26.5	-30.7	-31.4
Net Migration (sa)	430	740	320	-40	10	-310	280	740	1670	..
Net Migration (annual)	4732	5201	4938	4403	4329	3569	3814	4538	6160	..

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

## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Feb-09	Mar-09	6-Apr-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
NZD/USD	0.515	0.530	0.586	0.490	0.470	0.450	0.440	0.440	0.450	0.460
NZD/AUD	0.794	0.797	0.819	0.790	0.810	0.833	0.815	0.786	0.776	0.767
NZD/EUR	0.402	0.406	0.434	0.395	0.412	0.417	0.407	0.400	0.402	0.404
NZD/JPY	47.6	51.8	58.7	49.0	46.1	43.2	41.8	41.8	43.7	45.1
NZD/GBP	0.358	0.373	0.395	0.345	0.336	0.333	0.338	0.338	0.346	0.348
NZ\$ TWI	52.3	53.8	58.1	51.2	50.7	49.9	48.9	48.3	49.0	49.5
NZ interest rates	Feb-09	Mar-09	6-Apr-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
OCR	3.71	3.00	3.00	2.50	2.50	2.50	2.50	2.50	3.00	4.00
90 day bill	3.40	3.25	3.22	3.00	3.00	3.00	3.00	3.00	3.70	4.70
10 year bond	4.53	4.78	5.25	4.40	4.30	4.30	4.70	4.80	5.50	5.70
International	Feb-09	Mar-09	6-Apr-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00
US 3-mth	1.28	1.27	1.16	0.90	0.70	0.50	0.70	1.25	1.75	2.25
AU cash	3.50	3.25	3.25	2.75	2.25	2.00	2.00	2.00	2.00	3.00
AU 3-mth	3.68	3.36	3.14	2.90	2.10	2.30	2.30	2.40	2.60	3.80

## KEY RATES

	3 Mar	30 Mar	31 Mar	1 Apr	2 Apr	3 Apr
Official Cash Rate	3.50	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.07	3.38	3.33	3.22	3.22	3.22
NZGB 07/09	3.00	3.19	3.17	3.08	3.08	3.10
NZGB 11/11	3.40	3.99	3.90	3.74	3.72	3.89
NZGB 04/13	3.81	4.56	4.47	4.32	4.29	4.46
NZGB 12/17	4.42	5.37	5.25	5.10	5.06	5.23
2 year swap	3.24	4.11	3.95	3.69	3.75	3.91
5 year swap	4.16	5.23	5.11	4.81	4.84	5.04
RBNZ TWI	51.2	56.6	57.0	56.0	56.7	57.9
NZD/USD	0.4948	0.5645	0.5684	0.5576	0.5674	0.5840
NZD/AUD	0.7795	0.8214	0.8253	0.8094	0.8083	0.8175
NZD/JPY	48.19	55.18	55.79	55.06	55.99	58.21
NZD/GBP	0.3518	0.3961	0.3971	0.3897	0.3916	0.3970
NZD/EUR	0.3926	0.4257	0.4288	0.4218	0.4274	0.4348
AUD/USD	0.6348	0.6872	0.6887	0.6889	0.7020	0.7144
EUR/USD	1.2603	1.3262	1.3255	1.3218	1.3275	1.3432
USD/JPY	97.40	97.75	98.15	98.74	98.67	99.68
GBP/USD	1.4064	1.4250	1.4313	1.4307	1.4490	1.4712
Oil	40.07	52.41	48.49	49.67	48.46	52.61
Gold	923.00	924.00	918.80	920.75	927.50	905.85
Electricity (Haywards)	3.32	5.13	6.74	5.50	6.70	n/a
Milk futures (US\$/contract)	83	83	83	83	83	86
Baltic Dry Freight Index	2034	1646	1615	1574	1538	1506

## NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

### *Qualifications, experience and professional standing*

#### **Experience**

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

#### **Relevant professional body**

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

#### **Professional indemnity insurance**

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

#### **Dispute resolution facilities**

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

### *Criminal convictions*

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;

- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

### *Fees*

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

### *Other interests and relationships*

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

### *Securities about which investment advice is given*

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

## **PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY**

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

#### **Record Keeping**

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

#### **Auditing**

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

#### **Use of Money and Property**

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

#### **NEW ZEALAND DISCLAIMER**

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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