

END OF THE GOLDEN WEATHER

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- > Housing data is confirming just how weak the market is, and no relief is in sight. The NZIER's Quarterly Survey of Business Opinion dominates the calendar this week, and is expected to mirror the National Bank survey showing a stagnant economy, but with elevated inflation.

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- > US data remains soft, and consistent with recession. But abstracting from jobs, a base may be forming. European data also appeared to take on a softer tone last week with a lower services PMI and falling retail sales. A number of Asian countries released trade data, and in general, export growth remains strong.

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- > The majority of export sectors received a double-dip in March in the form of stronger commodity prices and a fall in the NZD against most major trading partners. This resulted in all the commodity adjusted real exchange rates we monitor falling (becoming more enhancing) over the month.

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ECONOMIC OVERVIEW

Housing data is confirming just how weak the market is, and no relief is in sight. The NZIER's Quarterly Survey of Business Opinion dominates the calendar this week, and is expected to mirror the National Bank survey showing a stagnant economy, but with elevated inflation.

What's ahead?

- > **NZIER March quarter QSBO** (Tuesday 1000 NZST). Headline confidence and own activity expectations are expected to fall sharply, in line with the NBBO survey. Resource and capacity measures to ease, but pricing intentions to remain elevated. Refer page 5 for further detail.
- > **REINZ March Housing Market Report** (circa 11 April). Further downward pressure on house prices, with the annual house price inflation rate expected to move into negative territory. House sales likely to fall as suggested by Barfoot and Thompson data.

What's the view?

Last week started with a hiss and a roar following the release of the National Bank *Business Outlook* for March. The survey painted a pretty grim picture of the near-term outlook for the New Zealand economy, with firms' own activity expectations falling to the lowest level since 1991. However, seeing as we discussed this, and other NBBO results, in last week's *Market Focus* we will leave it at that. Nevertheless, the implications of it, particularly the fact that economic growth looks likely to slow markedly over 2008, cannot be understated and this theme has dominated trading in the local market over the week.

Markets are now becoming increasingly clued up to the economy losing momentum at a rapid clip, with the dreaded "R" featuring regularly. Once again, we'll repeat our key message: What happens in 2008 is only a small part of the story. The dominant force shaping prospects over the coming years is household de-leveraging. It's not the "R" that is important, rather the fact such de-leveraging is going to take time as precautionary savings are rebuilt, and keep prospects subdued for a considerable period. If our de-leveraging hypothesis is correct, it is going to extend into 2009, and across the alphabet of economic cycles, we'll be looking at a "U" or soup-bowl [eventual] recovery as opposed to the "V" and martini glass.

The NZD has come under increasing selling pressure and is looking fragile around current levels. We noted last week we suspected a large 10 cent move in the kiwi was around the corner. Historically, the NZD has always lagged the swaps market, and while the former has started repricing the Reserve Bank, the currency hadn't really moved, and invariably ends up playing catch-up. With forward indicators and weak anecdotes floating around, it is hard to paint a bullish prognosis, and we suspect we're entering a repeat of what happened in March 2006, particularly with March

quarter GDP looking negative in the same manner as the December 2005 quarter. Only this time, with the economy looking far weaker and a global event in the backdrop reinforcing NZ's current account deficit (a theme we expect to become of growing importance), we doubt we'll see the same recovery in the NZ dollar. The local swaps market has also reacted strongly, with the 2-year rate off a further 12 basis points last week and is now 56 basis points lower since the start of the year.

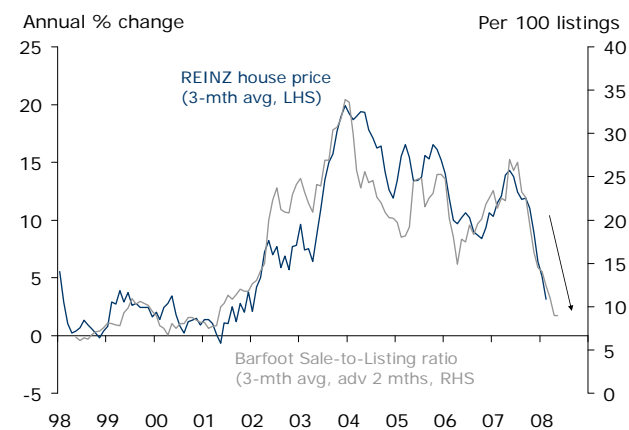
Twelve months ago, this type of movement in the swaps market would have had the Reserve Bank on edge as lower fixed mortgage rates would have been just around the corner. However, fixed mortgage rates have not fallen. In fact, some edged up over the week. No guessing the reasons why given the global (credit) environment! To us this reinforces the significant role the credit channel of monetary policy will play going forward, and is an area the Reserve Bank needs to be closely monitoring. Financial conditions continue to tighten. While inflationary pressures certainly necessitate tight financial conditions, it is the additional tightening via the credit channel that, in our view, is taking conditions to overly restrictive territory. This continues to bias us to the view that the Reserve Bank will likely be forced to cut interest rates before the year is out to mitigate some of the tightening being delivered via the credit channel. Don't get us wrong – we are not calling for loose policy, just less restrictive.

In terms of data, we got further confirmation of the weak housing market last week with the release of the March Barfoot & Thompson data for the Auckland region. Monthly house sales hit their lowest level since 1998 and are down a whopping 56 percent on a year ago. An early Easter this year may have had some role to play in the weakness (as house sales usually settle on a Friday), but even accounting for that, this was a soft result. What is really telling is that the number of available listings on the market continues to grow. At the current rate of sales, there is almost a year's worth of supply. It is clearly a buyers' market. The only problem is there are no buyers around. A traditional support factor such as migration is receding, and credit criteria are tightening. Of course credit providers are still open for business, but it is folly to think standards don't change when the economic cycle turns. This means only one thing for house prices, and it is more adjusting lower.

We also noticed difficulties apparent in another finance company last week. While this theme is nothing new, what struck us was the reasoning, with problems now extending to the lending book and beyond liquidity. (Strictly speaking, looking at the projected recovery estimates from receivers from those who have been placed in receivership, the quality of the books in some cases has already been found to be poor). With property prices now falling, particularly in certain speculative pockets such as land and apartments (although upper end high quality stuff continues to perform well), the quality of the lending portfolios will increasingly come under attention. We've been silent on the sector for a while. But we also have an

obligation to keep people informed and prudent. To us, it's the old familiar story of an industry that has a strong role to play in the economy and having some real quality players, being tagged in a systemic fashion by the fallout of a few. We're in no doubt the industry will be stronger in five year's time, as it goes through inevitable consolidation, and the good players come out on top. Unfortunately, the adjustment in the meantime looks to have further to run.

House Price and Sale-to-Listing Ratio



Sources: ANZ National, REINZ, Barfoot and Thompson

Turning back to real estate itself, we expect softness in the Barfoot data to be mirrored in the nationwide REINZ figures due near the end of this week. House prices are already falling on a six month basis, but we think that the March report will show annual house price growth falling for the first time since 2001. This could possibly be a further wake up call to some out there who believe that "house prices never fall". They have in the past, they are now, and they will in the future. Just like the economy, housing markets go through cycles.

With house prices rising 90 percent since 2002 – the biggest boom on record, the dip on the other side is shaping up to be more sizeable than previous corrections. A ten percent fall is now commonly bandied about, which looks reasonable to us, although we suspect the price of land will bear a bigger adjustment. Unlike previous housing cycles, there is no real excess supply of housing per say. However, the same does not apply for land (excluding Auckland), with developments being carved off willy nilly. The median house price has risen 97 percent between January 2002 and December 2007, while the median sale price of land has risen 129 percent, hence our expectations it'll be land that will show the larger correction, particularly with a speculative element that has crept in.

Another interesting development last week was the release of the Government's tax outturn for February. Tax can be volatile, but it can also be a good early indicator on how the real economy is tracking. Tax revenue was \$793 million below forecast in February, with lower GST the main contributor to the deviation. However, rather than indicative that spending has slowed faster than expected, IRD believe that it is a result of timing issues of when GST is due each month

and therefore this should reverse in coming months. We shall see.

One of the only shining lights for the economy at present remains commodity prices. The ANZ Commodity Price Index rose by 2.0 percent in March, back up to a new record high. But unlike what drove it to the previous high levels, that being dairy, the strength is now coming from other commodities (although dairy is still contributing). Deer, aluminium and seafood prices all rose strongly in the month. We update our commodity adjusted real exchange rates on page 9. They show that while most export sectors are still struggling under the weight of the high NZD, stronger commodity prices have at least enabled the crude and seafood sectors to join the dairy sector as ones where commodity prices are more than offsetting the impact of the high NZD. Commodity prices will help provide some form of support for the economy over the coming year. Unfortunately though, they won't be enough to avert a period of quite subdued growth over 2008.

In offshore developments last week, we saw a return in confidence with equity markets improving. US financial stocks, in particular, received a boost from the announced capital raising initiatives by some large investment banks, signalling perhaps that investors are hopeful that the worst of the credit market turmoil has passed. Increased capital flows will certainly help the financial sector, which has been beaten down by credit losses and writedowns. However, we are cautious to say the worst has past just yet as previous rallies have been short-lived. It remains a case of watching and waiting.

What we do know, is that the financial market distress hasn't really had a major impact on global real growth just yet. Yes, the US economy has slowed, and chances are it is in recession right now, particularly with the unemployment rate continuing to rise. But the extent of the softness remains US-centric. We do expect some spillover, however. European growth indicators are beginning to soften. Retail sales are 0.2 percent down on a year ago, and the services PMI has trended lower since August last year. We admit though, that it is not all one way traffic. German confidence gauges remain resilient as does the labour market for Europe as a whole. Nonetheless, we find it difficult to envisage the European economy will escape unscathed, we will be watching developments closely.

Moving to the data this week, along with the March REINZ report due (as we discussed above), the other key piece of information will be the NZIER's Quarterly Survey of Business Opinion. Although the information contained within it largely mirrors the National Bank *Business Outlook* survey, some of the capacity and resource pressure indicators are useful and are closely monitored by the Reserve Bank. We expect headline confidence and own activity indicators to fall sharply. We also expect capacity utilisation to ease, although remain at a level that portends of still persistent inflationary pressures. For our full preview note, refer to page 5.

In international data, the important events will be the minutes of the FOMC interest rate decision from March 18 (where the Fed cut interest rates by a further 75 bps). Recent financial market developments (discussed above) have contributed to markets paring back expectations of further interest rate cuts. The minutes will be looked to for further insight. Other central banks are also active this week, with the BoJ, BoE and ECB expected to announce interest rate decisions. Of the three, only the BoE are expected to adjust rates. The ECB are likely to maintain their hawkish rhetoric, particularly given inflation pressures. Closer to home, Australian employment data will be important.

Recent data...

- > **NZ Building Consents (February).** Residential dwelling consents fell 6.5 percent, to be down 18 percent on a year ago.
- > **NBNZ Business Outlook survey (March).** Headline confidence and own activity expectations fell sharply. Employment, export and investment intentions also fell. Pricing intentions remain stubbornly elevated.
- > **NZ Credit Growth (February).** Total household claims grew by 0.8 percent in the month, following a 0.7 percent increase in January.
- > **ANZ Commodity Price Index (March).** The world price index rose by 2.0 percent, to a new record high.
- > **Barfoot & Thompson (March).** 632 house sales were recorded during the month, 56 percent below March 2007.
- > **Financial Statement of Government (Eight Months Ended February 2008).** The operating balance was \$3.3 billion lower than forecast at \$1.4 billion. This was largely a result of investment losses relating to the NZS Fund.

DATA PREVIEW

NZIER Quarterly Survey of Business

Opinion (due Tuesday 8 April 10.00am)

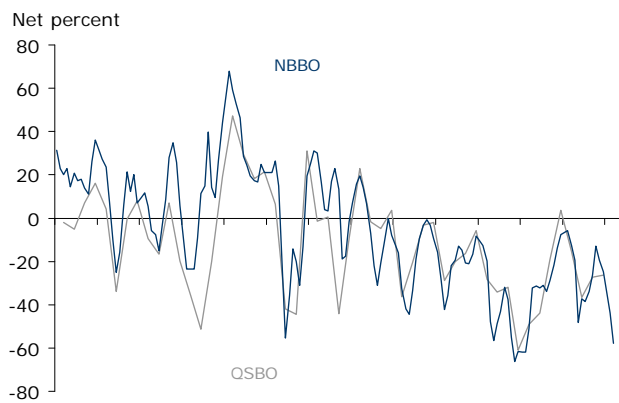
	ANZ National	Previous
Headline Business Confidence	-56	-29
Capacity Utilisation	91.4	92.0
Pricing Intentions	35.0	35.2

Headline business confidence and own activity measures to fall sharply, in line with recent National Bank *Business Outlook* readings. Capacity utilisation and employment intentions to also ease, although pricing intentions to remain elevated.

Tomorrow's headline NZIER business confidence and domestic trading activity measures are expected to fall sharply. A negative gloom appears to have descended over businesses in recent months as reported by the National Bank *Business Outlook* (NBBO) survey, with firms' own activity expectations falling to a 17-year low. We expect similar themes to be present in the NZIER survey as the long list of negative factors weigh on business sentiment.

Financial conditions are extremely tight through high interest rates, the NZD, and a higher cost of international credit. Equity markets are under pressure, the housing market is weakening sharply, retailing is flat at best, petrol prices are hitting new highs, and the list goes on. Despite some cheer in the form of a lower corporate tax rate kicking in from the start of April and the Minister of Finance's hint of "significant tax changes" to be announced in the upcoming May *Budget*, positive news is being dwarfed by negatives at present. Of course the danger is that NZ is rapidly talking itself into despair, although when you look at the structural economic challenges NZ is facing (high current account deficit, high inflation, weak productivity growth), the endgame was always going to be an adjustment on the growth front.

NBBO vs QSBO Headline Confidence

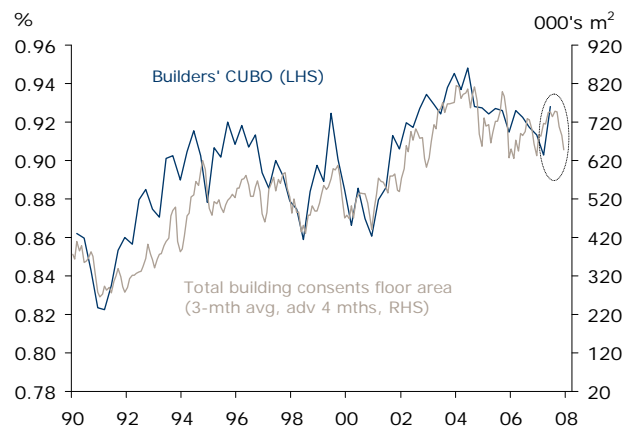


Sources: ANZ National, NZIER

Indicators of resource pressures are expected to ease. Capacity utilisation took a surprising strong surge upwards in the December quarter, fully

attributed to builders, with manufacturers' capacity utilisation falling slightly. Given the softness seen in the housing market and residential consent issuance, we suspect this was largely a non-residential story. The housing market has continued to slow into the New Year and consent issuance (including commercial) continues to trend lower. We expect an unwind in the CUBO measure to around 91.4. Nevertheless, this remains at an elevated level and is still consistent with resources being stretched.

Builders' CUBO vs Building Consents



Sources: ANZ National, NZIER, Statistics NZ

Hiring and investment plans expected to be shelved. With momentum in the economy coming to a stall, we expect businesses to be less inclined to increase staff levels or investment over coming months. In fact, the NBBO employment intentions have now turned negative, and we suspect this could be mirrored in the QSBO survey. This portends of weaker employment growth over the first half of 2008 and if sustained, would lead to gradual increases in the unemployment rate. Lower employment intentions should also start to see difficulty in finding labour measures reduce, although this may not begin to be picked up until the June quarter survey, as this indicator tends to lag employment intentions.

Pricing intentions to remain largely unchanged at high levels. While growth and resource pressure indicators are expected to head lower, pricing intentions are likely to remain elevated and persistent. With March quarter CPI data out next week (we expect to see headline inflation reach 3.5 percent), an elevated pricing intentions read will reinforce the Reserve Bank's concerns over near-term inflation pressure.

Implications

We do not anticipate any major surprises from the QSBO survey given that the informational content is typically a replica of the National Bank *Business Outlook* survey. Overall, it will paint a picture of an economy that is stagnant on the growth front. The market will be quick to latch on to any signs that resource pressures are easing, though any rally in rates is expected to be capped by the upcoming CPI report.

GLOBAL WATCH

We present a table of global data outturns over the past week given the significance of the international backdrop at present. US data remains soft, and consistent with recession. But abstracting from jobs, a base may be forming. European data also appeared to take on a softer tone last week with a lower services PMI and falling retail sales. A number of Asian countries released trade data, and in general, export growth remains strong.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	ISM Manufacturing (Mar)	47.5	48.6	48.3	Stronger
	Construction Spending (Feb) – mom	-1.0%	-0.3%	-1.0%	Stronger
	ISM Non-Manufacturing (Mar)	48.5	49.6	49.3	Stronger
	Change in Non-Farm Payrolls (Mar)	-50k	-80k	-76k	Weaker
	Unemployment Rate (Mar)	5.0%	5.1%	4.8%	Weaker
Europe	CPI Estimate (Mar) – yoy	3.3%	3.5%	3.3%	Stronger
	Economic Confidence (Mar)	100.0	99.6	100.2	Weaker
	Unemployment Rate (Feb)	7.1%	7.1%	7.1%	In-line
	PPI (Feb) – mom	0.6%	0.6%	0.9%	In-line
	PMI Manufacturing (Mar F)	52.0	52.0	52.0	In-line
	PMI Services (Mar F)	51.7	51.6	51.7	Weaker
	Retail Sales (Feb) – mom	0.2%	-0.5%	0.5%	Weaker
UK	PMI Manufacturing (Mar)	51.0	51.3	51.3	Stronger
	Net Consumer Credit (Feb)	0.9B	2.4B	0.9B	Stronger
	PMI Services (Mar)	53.3	52.1	54.0	Weaker
Asia Ex-Japan					
<i>Singapore</i>	Purchasing Managers Index (Mar)	50.0	49.4	50.3	Weaker
	Electronics Sector Index (Mar)	50.5	50.7	51.2	Stronger
<i>Philippines</i>	CPI (Mar) – yoy	5.8%	6.4%	5.4%	Stronger
<i>South Korea</i>	Industrial Production (Feb) – mom	0.1%	-0.2%	1.9%	Weaker
	Exports (Mar P) – yoy	16.3%	19.1%	18.8%	Stronger
	Imports (Mar P) – yoy	26.5%	25.9%	27.6%	Weaker
<i>Malaysia</i>	CPI (Mar) – mom	0.8%	0.9%	0.4%	Stronger
	Exports (Feb) – yoy	12.1%	14.5%	10.4%	Stronger
	Imports (Feb) – yoy	11.2%	10.9%	7.1%	Weaker
<i>India</i>	Exports (Feb) – yoy	-	35.3%	20.5%	-
	Imports (Feb) – yoy	-	30.5%	63.6%	-
<i>Indonesia</i>	Inflation (Mar) – yoy	7.50%	8.17%	7.40%	Stronger
	Exports (Feb) – yoy	29.3%	28.5%	33.2%	Weaker
	Imports (Feb) – yoy	51.6%	67.7%	43.9%	Stronger
	Bank of Indonesia Reference Rate	8.00%	8.00%	8.00%	In-line
<i>Thailand</i>	Manufacturing Production (Feb) – yoy	11.9%	14.7%	13.9%	Stronger
	CPI (Mar) – yoy	5.2%	5.3%	5.4%	Stronger
Japan	Industrial Production (Feb P) – mom	-2.0%	-1.2%	-2.2%	Stronger
	Labour Cash Earnings (Feb) – yoy	0.6%	1.3%	1.6%	Stronger
	Housing Starts (Feb) – yoy	-1.0%	-5.0%	-5.7%	Weaker
	Tankan Large Manufacturers Index (1Q)	13	11	19	Weaker
Australia	Private Sector Credit (Feb) – mom	1.1%	0.7%	1.0%	Weaker
	RBA Interest Rate Announcement	7.25%	7.25%	7.25%	In-line
	Retail Sales (Feb)	0.3%	-0.1%	-0.1%	Weaker

INTEREST RATE STRATEGY

Expected weak QSBO and housing data to see receivers have the upper hand. Offshore interest in kiwi rates starting to build, though will require getting through next week's Q1 CPI print.

Market themes...

- > NZ commodity prices still holding up, but Auckland house sales slumped in March.
- > Global markets stabilising despite further writedowns.
- > Bernanke sees US recession a possibility. Weak non-farm payrolls suggest may already be in one.

Review and outlook...

The NZ yield curve moved lower over the week by between 3 to 12bps with the curve (2s10s) steepening by 9bps. The 90-day rate fell as the end of bank half year squeeze eased, though the spread over OIS remains elevated at 50bps. While rates in the US sold off over the week as global markets showed signs of stabilising and US Federal Reserve Chairman Ben Bernanke saw US growth picking up over the second half of the year, causing the market to reassess the future Fed funds rate path (though weak payrolls at the end of the week clawed back some of those losses), weak National Bank business confidence survey and a Barfoot and Thompson report showing a slump in Auckland house sales meant the NZ rates market was marching to its own tune.

With this week's NZIER QSBO expected to print soft, and the REINZ nationwide housing market report likely to mirror the Barfoot report, we expect the rates market to be well offered with strong receiving interest starting to come through. With mortgage paying slowing in line with the softening housing market, we could see swap yields trade towards the bottom of their recent ranges. We expect the ranges we specified last week to hold (8.1 to 8.35 percent for the 2-year, and 7.65 to 7.90 percent for the 5-year) and it will take a materially weak QSBO reading to see swaps move to a new lower trading range. Next week's Q1 CPI print, which is expected to be strong, will limit the extent of any rally.

The market continues to look for a September/December start to the easing cycle. The rather limited reaction to the stronger than expected Q4 GDP, and the rally in reaction to the NBBO survey and Barfoot data, suggests that participants are well focused on economic developments in the here and now. The NZ rates market's outperformance compared to global counterparts suggest that the domestic slowdown story is quickly gaining traction and receiving interest is starting to gather pace, particularly from offshore.

In terms of global events, the Fed minutes from the March FOMC meeting will be released and the market will closely peruse the contents for any hint of the end to the easing cycle. We have interest rate decisions from the BoJ, BoE and ECB. The BoE is expected to ease by 25bps, while the ECB is expected to maintain

their hawkish rhetoric towards risks to price stability. In terms of the economic data, Australian employment and building consents data, and US home sales and University of Michigan consumer confidence survey are key reads.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔	Lack of inflation headroom means their hands are tied.
NZ data	↓	QSBO and housing data to show further domestic weakness.
Fed Funds/front end	↔/↓	Another rate cut end of this month but may be getting close to the end of the easing cycle.
RBA	↔	RBA on hold for now with higher retail mortgage rates doing the work for them.
US 10 year	↔/↓	Weak payrolls number sees growth concerns back on the table.
NZ swap curve	↔/↓	Receiving through the belly of the curve will be the dominant theme.
Flow	↔	Market is looking for entry levels to receive swap. May wait until after Q1 CPI.
Technicals	↔/↓	Q1 real data prints for NZ to show consistently bearish undertones.

Borrowing strategies we favour at present

Our strategy remains unchanged – pay the 18 months to 2-year, and for those with existing portfolios and whose durations are beyond 3 years to shorten duration. If weaker NZ economic data intensifies (which we should be getting this week), the mid-points of the curve should outperform as investors look to obtain duration that covers multiple potential rate cuts. Our preference remains to keep borrowing short, no longer than two years.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 24-Apr-08	-2	-1
Thu 5-Jun-08	-26	-29
Thu 24-Jul-08	-50	-49
Thu 11-Sep-08	-70	-63
Thu 23-Oct-08	-150	-131
Thu 4-Dec-08	-210	-223
Thu 15-Jan-09	-210	-223

Trading themes we favour at present

We continue to favour receiving the belly of the swaps curve (3 to 5 year). The 2-year remains expensive given the carry cost from the elevated 90-day rate.

CURRENCY STRATEGY

The domestic environment leaves the NZD looking vulnerable and it should continue to struggle. A weak USD is providing a base, but with so much bad news priced in already, how much lower can it go?

Market themes...

- > Domestic headwinds weighing on the NZD.
- > USD remains weak, but so much bad news is priced in already.
- > Central bank action the focus this week.

Review and outlook...

It remains a difficult environment for the NZD as it continues to struggle to maintain highs. Although a weak USD is providing a base by default (and the NZD treaded water against the USD last week), domestic developments, and particularly the rapidly weakening macro-environment, are weighing on prospects. The NZD underperformed the majority of its major trading partners last week. This despite, what we'd generally consider would have been a number of positive support factors:

- > Sentiment slowly returned to financial markets with the announcement of big capital injections to some large financial institutions. US equities rose and some now feel the worst of the credit crisis may be over.
- > Commodity prices generally recovered over the week after their recent sharp sell-off.
- > Despite some recent softer domestic data, the AUD rose over the week, largely on the back of commodity strength.

Net-on-net it is perhaps of little surprise to see the NZD/AUD moving lower in this environment, although it also suggests the NZD on a TWI basis remains susceptible to a move lower. Abstracting from intra-day volatility, the bigger picture is increasingly being influenced by overwhelming evidence the economic cycle has turned. Markets like to run in trends, and the domestic data "trend" has turned negative.

This week's Quarterly Survey of Business Opinion is expected to show a stagnant economy, and going by last week's Barfoot & Thompson real estate figures, REINZ data this week is likely to give a poor read on the state of the property market.

Stepping back, the interest rate market has been repricing the RBNZ, with the 2-year swap now at 8.12 percent. We've seen this happen in the past, the rates market always leads and the currency ends up playing catch-up. There looks a fair chance of an aggressive move lower in a similar fashion to March 2006.

The key hurdle standing in the way of NZD's move lower remains weak USD sentiment. Although it is far too early to say USD sentiment has turned, a floor does look to be developing, and the key to this holding will remain the relative tenor of the data between

Europe and the US. As noted on page 6, excluding labour market statistics, US data looks to be base-building, while European data is softening. It may well be a case of first in-first out.

International events have a very central bank feel about them this week, with the BoJ, BoE, and ECB due to make interest rate decisions, and the Fed due to release their minutes from their March 18 meeting. The BoE are expected to cut rates, while the BoJ and ECB are expected to keep rates unchanged.

Technically, the NZD remains range-bound. Trend line support exists at 0.7780 as well as the key 200 day moving average at 0.7663. Resistance is initially at 0.7910. Given ailing momentum, we expect tests of support this week.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↓	Yield spreads narrowing
Commodities	↔/↓	Gold prices recovered last week.
Partial indicators	↔/↓	Better across the Tasman.
Technicals	↓	Support at 0.8520 under threat.
Sentiment	↓	NZD is not a better credit risk than AUD.
Other	↓	All eyes on commodities and equities.
On balance	↓	Tests of support likely.

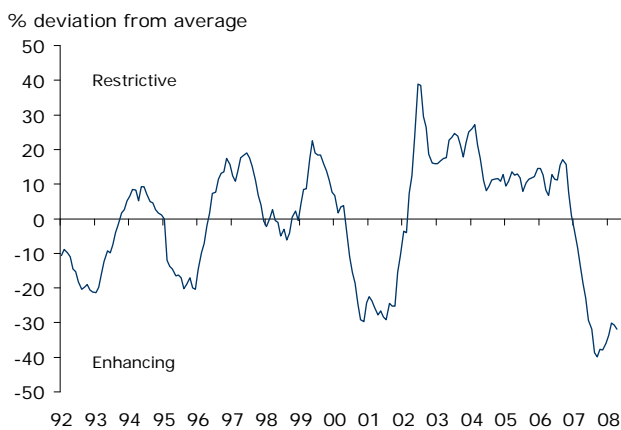
NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↔/↓	Yield and commodity story factored in. Current account becoming an issue.
Yield	↔	Yield differentials still at phenomenal levels.
Commodities	↓	Still a key one to watch.
Risk aversion	↔	Sentiment slowly returning and Wall St recovering.
Partial indicators	↔	Both economies weak.
Technicals	↔	0.7780/0.8000 range.
AUD	↔	Range trade AUD/USD.
Sentiment	↔/↓	Volumes decreasing in kiwi.
Other	↔	USD weak but is all the bad news priced in?
On balance	↓	Domestic factors weighing.

EFFECTIVE EXCHANGE RATES UPDATE

We present an update of our real effective exchange rate measures across New Zealand's main export industries. The measures take into account the world prices that exporters are able to command (commodity prices in the case of commodity exporters), and adjust them by currency movements based on the export destinations. While it is generally acknowledged that a high NZD is eroding the competitiveness of the export sector, our real effective exchange rate measures show a contrasting impact on different sectors of the export community.

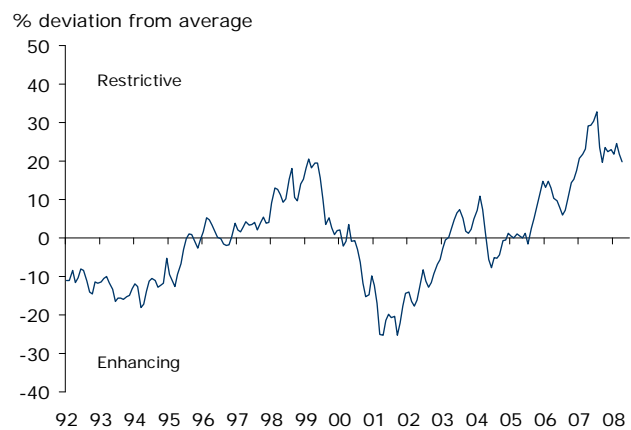
The majority of export sectors received a double-dip in March in the form of stronger commodity prices and a fall in the NZD against most major trading partners. This resulted in all the commodity adjusted real exchange rates we monitor falling (becoming more enhancing) over the month. The largest movement occurred for the seafood sector, where a 7.7 percent increase in world seafood prices contributed to the commodity adjusted real exchange rate falling to its lowest level since the end of 2002. Seafood joins the dairy and crude sectors as the only ones to experience real exchange rates that are below historical averages. Other sectors continue to find conditions restrictive in the current environment.

Sector: Dairy, ≈18% of exports



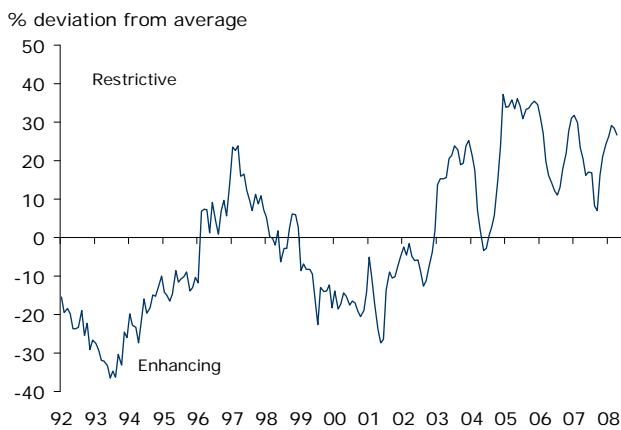
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Meat, ≈8% of exports



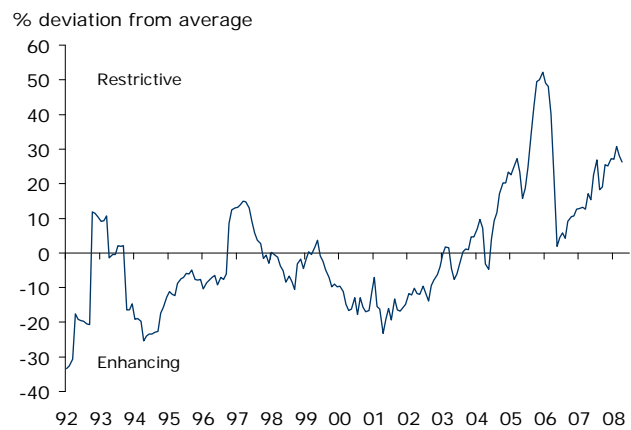
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Forestry, ≈10% of exports



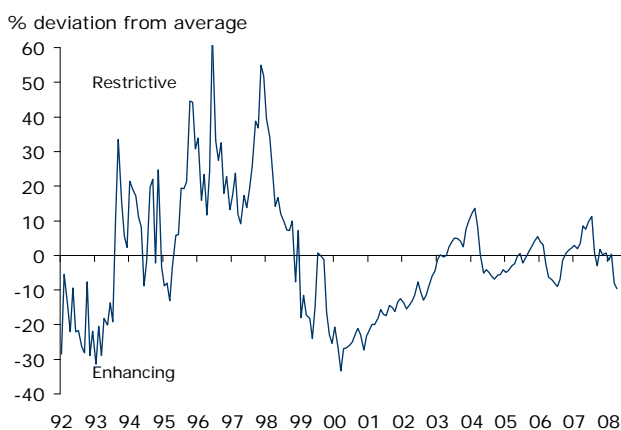
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Horticulture, ≈4% of exports



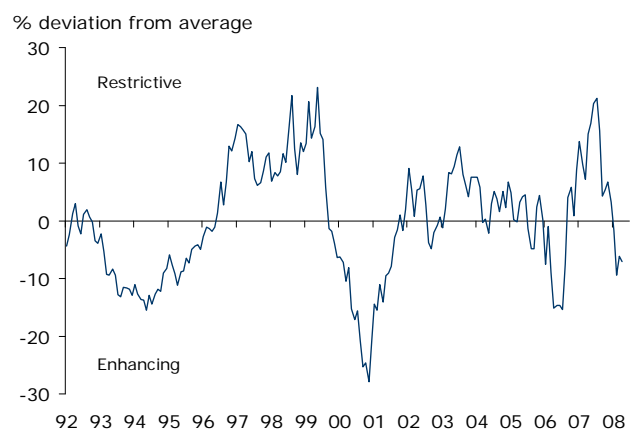
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Seafood, ≈3% of exports



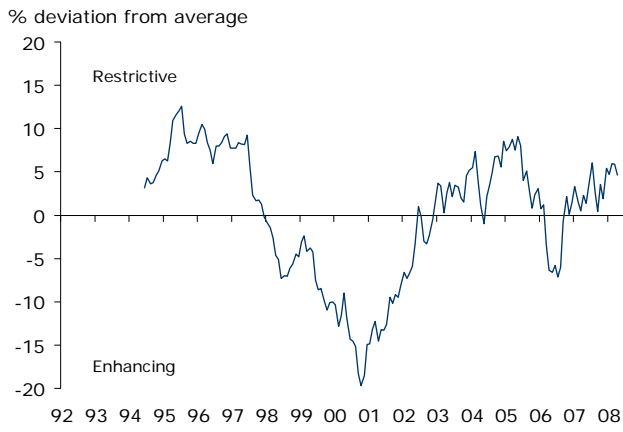
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Crude, ≈5% of exports



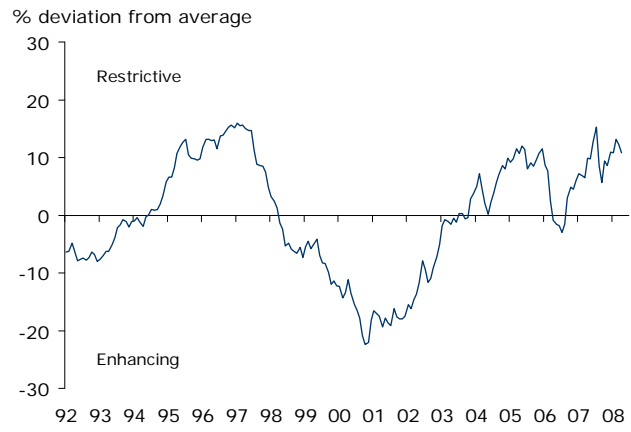
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Manufacturing, ≈20% of exports



Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Services, ≈24% of exports



Sources: ANZ National, Bloomberg, Statistics NZ

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
7 Apr	AU	AiG Performance of Construction Index (Mar)	-	53.9	11:30
		Trade Balance (Feb)	-2,500M	-2,723M	13:30
		Exports (Feb) – mom	-	1.7%	13:30
		Imports (Feb) – mom	-	5.4%	13:30
		Building Approvals (Feb) – mom	0.0%	1.9%	13:30
		ANZ Job Advertisements (Mar) – mom	-	-2.0%	13:30
		Foreign Reserves (Mar)	-	A\$35.3B	18:30
	JN	Official Reserve Assets (Mar)	-	\$1,008B	11:50
		Leading Economic Index (Feb P)	50.0%	36.4%	17:00
		Coincident Index (Feb P)	44.4%	20.0%	17:00
	GE	Industrial Production (Feb) – mom	-0.4%	1.8%	22:00
8 Apr	US	Consumer Credit (Feb)	\$6.0B	\$6.9B	07:00
		Fed's Yellen Gives Opening Remarks at Seattle Branch	-	-	09:30
		Fed's Kohn Gives Remarks at San Francisco Fed Seattle Branch	-	-	09:30
	NZ	NZIER Business Opinion Survey (1Q)	-	-26	10:00
	AU	NAB Business Confidence (Mar)	-	-2	13:30
		NAB Business Conditions (Mar)	-	11	13:30
	JN	Bankruptcies (Mar) – yoy	-	8.3%	16:30
		Eco Watchers Survey: Current (Mar)	-	33.6	17:00
		Eco Watchers Survey: Outlook (Mar)	-	39.5	17:00
9 Apr	US	Pending Home Sales (Feb) – mom	-1.0%	0.0%	02:00
		IBD/TIPP Economic Optimism	41.5	42.5	02:00
		Minutes of March 18 FOMC Meeting	-	-	06:00
	UK	Nationwide Consumer Confidence (Mar)	76	78	11:01
		Industrial Production (Feb) – mom	0.1%	-0.1%	20:30
		Manufacturing Production (Feb) – mom	0.0%	0.4%	20:30
	AU	Westpac Consumer Confidence (Apr)	-	-9.1%	12:30
	JN	BoJ Interest Rate Announcement	0.50%	0.50%	-
		Machine Tool Orders (Mar P) – yoy	-	-0.5%	18:00
	GE	Trade Balance (Feb)	15.7B	17.1B	18:00
		Current Account (Feb)	13.1B	15.0B	18:00
	EU	GDP (4Q F) – qoq	0.4%	0.4%	21:00
10 Apr	US	Bernanke Speaks on Financial Literacy in Washington	-	-	01:30
		Wholesale Inventories (Feb)	0.5%	0.8%	02:00
		Fed's Fisher Speaks in San Antonio on US Economy	-	-	05:30
	JN	Machine Orders (Feb) – mom	0.8%	19.6%	11:50
		Bank Lending incl Trusts (Mar) – yoy	-	0.8%	11:50

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
10 Apr	JN	Money Supply (M2+CD) (Mar) – yoy	2.4%	2.3%	11:50
		Broad Liquidity (Mar) – yoy	3.5%	3.5%	11:50
		Current Account Total (Feb)	2,465.0B	1,235.8B	11:50
	NZ	Business NZ PMI (Mar)	-	52.2	12:00
	AU	Consumer Inflation Expectations (Apr)	-	11.8%	12:30
		Employment Change (Mar)	10.0k	36.7k	13:30
		Unemployment Rate (Mar)	4.1%	4.0%	13:30
		Participation Rate (Mar)	65.2%	65.2%	13:30
	UK	Total Trade Balance (Feb)	-4,200M	-4,102M	20:30
		BoE Interest Rate Announcement	5.00%	5.25%	23:00
	EU	ECB Interest Rate Announcement	4.00%	4.00%	23:45
11 Apr	US	Trade Balance (Feb)	-\$57.5B	-\$58.2B	00:30
		Bernanke Speaks on PWG, Financial Stability Forum in Richmond	-	-	05:00
		ICSC Chain Store Sales (Mar) – yoy	-	1.9%	05:30
		Monthly Budget Statement (Mar)	-\$70.0B	-\$96.3B	06:00
	JN	Domestic CGPI (Mar) – mom	0.3%	0.4%	11:50
	EU	OECD Leading Indicator (Feb)	-	97.9	22:00
12 Apr	US	Import Price Index (Mar) – mom	2.0%	0.2%	03:00
		Fed's Fisher Gives Welcome Remarks at Conference in Dallas	-	-	01:00
		University of Michigan Confidence (Apr P)	69.0	69.5	02:00

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 data this week is likely to continue to paint a somber picture for near term economic growth. The REINZ housing data will be particularly soft, while the QSBO should mirror the themes from the National Bank *Business Outlook* survey. The key piece of information due, however, is the March quarter CPI report, which is likely to remain too high for comfort for the Reserve Bank.

Date	Data/Event	Economic Signal	Comment
Tue 8 Apr (10.00)	NZIER QSBO (Q1)	Negative	Confidence expected to show a sharp drop, in line with the NBBO survey. Key to watch is whether indicators of resource pressure eased.
circa 11 Apr	REINZ housing report (Mar)	On the down	Further downward pressure on house prices, with the annual house price inflation rate expected to move into negative territory. House sales likely to fall as suggested by Barfoot and Thompson data.
Mon 14 Apr (10.45)	Retail sales (Feb)	Ongoing softness	Following fairly soft January retail sales, we expect the underlying trend to remain one of weakness. Higher food and petrol prices to again inflate the headline number.
Tue 15 Apr (10.45)	CPI (Q1)	Too high for comfort	Higher food and petrol prices to see annual inflation remain above the RBNZ's target band. Key focus is on whether non-tradable inflation reverses recent surprises on the downside.
Mon 21 Apr (10.45)	Net migration (Mar)	Lower	Stable arrivals but rising departures to see net migration continue to head lower.
Wed 23 Apr (10.45)	Electronic card transactions (Mar)	Easter effect	Early Easter this year to drag this reading lower.
Thu 24 Apr (09.00)	RBNZ <i>OCR Review</i>	Similar themes	With Q1 CPI expected to reinforce inflation issues, we expect the line to be reasonably similar to March. However, with some of the downside growth risks materializing, all will be looking for an ever so slightly softer tone.
Tue 29 Apr (10.45)	Overseas Merchandise Trade (Mar)	Small surplus	The ongoing impact of high dairy prices is expected to contribute to a small monthly surplus in March. This is offset slightly by continued high oil prices.
Tue 29 Apr (15.00)	Credit Growth (Mar)	Soft	Last month's data surprised on the upside slightly. However, this could be a consequence of February having five Fridays (which is when lending typically settles on). The underlying trend should remain soft.
Wed 30 Apr (10.45)	Building Consents Issued	Downwards	Both residential and non-residential consent issuance is trending lower. We expect this to continue. We would not be surprised to see a massive decline in residential consents in the March month given the sharp fall in sentiment across the construction sector in the month.
Wed 30 Apr (15.00)	NBNZ <i>Business Outlook</i> (Apr)	-	-
On Balance		A growth wall but inflation problems	Growth indicators are now expected to come in consistently weak, but inflation still problematic.

SUMMARY OF KEY ECONOMIC FORECASTS

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
GDP (% qoq)	1.2	0.9	0.5	1.0	0.1	-0.2	0.1	0.2	0.3	0.4
GDP (% yoy)	2.3	3.2	3.3	3.7	2.5	1.4	1.0	0.2	0.4	1.0
CPI (% qoq)	0.5	1.0	0.5	1.2	0.8	0.8	0.9	0.8	0.5	0.7
CPI (% yoy)	2.5	2.0	1.8	3.2	3.5	3.2	3.6	3.2	2.9	2.8
Employment (% qoq)	1.2	0.6	-0.3	1.1	0.2	0.1	0.1	0.2	0.1	0.2
Employment (% yoy)	1.7	1.6	1.6	2.5	1.5	1.0	1.4	0.6	0.5	0.6
Unemployment Rate (% sa)	3.7	3.6	3.5	3.4	3.5	3.6	3.8	4.0	4.1	4.1
Current Account (% GDP)	-8.2	-8.1	-8.4	-7.9	-7.5	-6.9	-6.6	-6.8	-6.9	-6.9
Terms of Trade (% qoq)	1.5	0.4	3.7	2.9	2.0	0.0	-0.9	0.0	-1.5	-1.2
Terms of Trade (% yoy)	4.5	2.3	8.4	8.8	9.3	8.8	4.0	1.1	-2.4	-3.5

KEY ECONOMIC INDICATORS

	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Retail Sales (% mom)	-0.4	0.2	0.2	1.1	-0.5	1.8	0.1	0.3
Retail Sales (% yoy)	4.8	5.7	6.3	4.1	5.8	7.2	5.4	6.3
Credit Card Billings (% mom)	1.6	0.1	0.8	2.1	-0.5	1.1	0.5	0.1	0.7	..
Credit Card Billings (% yoy)	9.0	7.9	8.5	9.3	7.8	9.5	7.5	8.7	8.1	..
Car Registrations (% mom)	-4.7	7.0	1.1	-6.6	5.6	-3.8	-2.9	10.3	-8.8	-12.8
Car Registrations (% yoy)	-1.5	7.0	10.9	0.1	4.7	2.3	1.4	1.7	1.9	-13.2
Building Consents (% mom)	12.4	-16.1	4.8	-9.3	-5.1	1.3	-4.2	3.2	-6.5	-4.0
Building Consents (% yoy)	32.9	-4.4	-1.9	-15.3	-16.5	-4.1	-6.4	-4.6	-17.9	-20.3
REINZ House Price (% yoy)	12.1	10.4	12.9	12.3	8.0	6.7	4.5	4.0	0.7	..
Household Lending Growth (% mom)	1.2	0.8	0.9	0.8	0.9	0.8	0.6	0.7	0.8	..
Household Lending Growth (% yoy)	13.5	13.5	13.4	13.0	12.8	12.6	12.2	11.8	11.5	..
Roy Morgan Consumer Confidence	121.0	121.1	122.4	121.3	122.0	121.9	126.6	121.2	116.0	111.7
NBNZ Business Confidence	-37.2	-38.5	-33.8	-26.5	-12.9	-19.6	-24.9	..	-43.9	-57.9
NBNZ Own Activity Outlook	14.8	12.4	16.7	17.2	20.3	15.7	18.2	..	2.4	-6.4
Trade Balance (\$m)	-518	-808	-947	-572	-774	-628	38	-316	258	..
Trade Balance (\$m annual)	-6226	-6340	-6336	-6282	-5883	-5691	-5307	-4798	-4413	..
ANZ World Commodity Price Index (% mom)	6.3	4.6	1.4	0.4	1.8	0.8	0.0	-1.4	1.1	2.0
ANZ World Commodity Price Index (% yoy)	29.8	35.1	36.3	35.7	37.8	35.9	30.9	27.4	26.9	26.9
Net Migration (sa)	610	460	720	650	250	470	20	70	170	..
Net Migration (annual)	10078	8966	8730	8309	7517	6588	5491	4799	4643	..

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-08	Mar-08	7-Apr-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
NZD/USD	0.797	0.801	0.789	0.780	0.740	0.690	0.660	0.640	0.630	0.620
NZD/AUD	0.873	0.867	0.856	0.830	0.804	0.767	0.759	0.762	0.778	0.795
NZD/EUR	0.540	0.517	0.501	0.506	0.490	0.469	0.465	0.464	0.474	0.488
NZD/JPY	85.5	81.0	80.1	79.6	74.0	70.4	69.3	69.1	69.3	70.1
NZD/GBP	0.406	0.400	0.396	0.390	0.379	0.359	0.349	0.344	0.342	0.341
NZ\$ TWI	73.0	71.5	70.3	69.6	66.6	63.0	61.6	60.9	61.2	61.7
NZ interest rates	Feb-08	Mar-08	7-Apr-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
OCR	8.40	8.67	8.25	8.25	8.00	7.50	7.00	6.75	6.75	6.75
90 day bill	8.82	8.90	8.82	8.80	8.40	7.70	7.10	7.00	7.00	7.00
10 year bond	6.40	6.36	6.52	6.60	6.30	5.80	5.40	5.40	5.30	5.20
International	Feb-08	Mar-08	7-Apr-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
US Fed funds	3.00	3.00	2.25	1.75	1.50	1.50	1.50	1.50	2.00	2.50
US 3-mth	3.06	2.87	2.73	2.00	1.75	1.75	1.75	2.00	2.50	3.00
AU cash	7.00	7.25	7.25	7.25	7.25	7.25	7.25	7.25	6.75	6.00
AU 3-mth	7.99	8.09	7.81	8.00	7.90	7.60	7.40	7.10	6.60	5.80

KEY RATES

	4 Mar	31 Mar	1 Apr	2 Apr	3 Apr	4 Apr
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
90 day bank bill	8.88	8.87	8.84	8.84	8.83	8.83
NZGB 07/09	7.29	6.75	6.74	6.78	6.78	6.75
NZGB 11/11	7.00	6.43	6.42	6.47	6.47	6.46
NZGB 04/13	6.85	6.43	6.43	6.48	6.48	6.46
NZGB 12/17	6.32	6.40	6.44	6.51	6.51	6.49
2 year swap	8.45	8.16	8.12	8.17	8.15	8.12
5 year swap	8.02	7.78	7.74	7.79	7.77	7.74
RBNZ TWI	72.3	70.4	70.0	70.6	70.4	70.0
NZD/USD	0.8048	0.7932	0.7874	0.7883	0.7874	0.7824
NZD/AUD	0.8583	0.8649	0.8611	0.8668	0.8616	0.8576
NZD/JPY	83.22	79.20	78.67	80.23	80.64	80.20
NZD/GBP	0.4054	0.3974	0.3969	0.3984	0.3964	0.3923
NZD/EUR	0.5295	0.5017	0.4992	0.5051	0.5034	0.4993
AUD/USD	0.9377	0.9171	0.9144	0.9094	0.9139	0.9123
EUR/USD	1.5200	1.5809	1.5774	1.5606	1.5642	1.5669
USD/JPY	103.40	99.85	99.91	101.77	102.41	102.50
GBP/USD	1.9850	1.9961	1.9837	1.9786	1.9866	1.9946
Oil	105.12	105.59	101.54	100.92	104.83	103.92
Gold	973.00	933.50	917.50	884.60	903.50	901.60
Electricity (Haywards)	10.97	16.46	15.43	13.28	12.53	12.16
Milk futures (US\$/contract)	131	130	130	130	130	133
Baltic Dry Freight Index	7993	8081	7890	7655	7690	7737

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