

A COLD SHOWER VERSUS AN ALASKAN DIP

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Page 2: Economic overview

- > Data continues to confirm considerable underlying weakness in the economy, although cost-push inflation continues to bubble. The Budget is the main event this week, with our attention on whether the income boost to households has either a positive or negative kicker for the Reserve Bank.

Page 4: Economic comment – a cold shower versus an Alaskan dip

- > The economy has ground to a screeching halt. The Reserve Bank remains in corroboration mode, wanting to make sure the slowdown is entrenched. A September rate cut remains our central track, which is now the consensus view. However, we are becoming increasingly uneasy over the "late-but more aggressive" easing view. We would not rule out stabilisation cuts, starting earlier, but of less magnitude.

Page 6: Budget 2008 Preview

- > This week's *Budget* will deliver tax cuts and increased government and investment spending. The altered economic environment means it will no longer be viewed as inflationary, despite the fiscal stance being more expansionary. We are expecting a modest increase in the bond tender programs going forward, rising from \$2.5b to \$3.0b.

Page 8: Economic comment – global watch

- > US data was mixed last week. Retail sales were stronger than expected (albeit still soft), as were housing starts. However, consumer confidence hit multi-decade lows and positively for the Fed, inflation was slightly weaker than expected. In Europe, GDP was stronger than expected, driven particularly by Germany. While in the UK, inflation data has seen near-term BoE rate cuts taken off the table.

Page 9: Interest rate strategy

- > Profit taking from last week could continue as rates market range trade ahead of *Budget* and towards the June *MPS*. Bias more towards the payside early in the week on back of mortgage flows and as markets pare back expectations of early rate cuts.

Page 10: Currency strategy

- > Although a sharply weaker domestic economy leaves the NZD vulnerable, moves higher this week against the greenback cannot be ruled out as the kiwi rides along in kanga's pouch and positions are squeezed. But a by-product should also be moves lower vis-à-vis the AUD.

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ECONOMIC OVERVIEW

Data continues to confirm considerable underlying weakness in the economy, although cost-push inflation continues to bubble. The *Budget* is the main event this week, with our attention on whether the income boost to households has either a positive or negative kicker for the Reserve Bank.

What's ahead?

- > **NZ April External Migration** (Tuesday 1045 NZST). The 3-month annualized inflow is expected to remain around 3,000. However, the risks do appear skewed to the downside.
- > **NZ April Electronic Card Transactions** (Wednesday 1045 NZST). An early Easter this year likely contributed to the softness in March. We expect a small bounce in sales in April, although underlying weakness will remain.
- > **NBNZ March quarter Regional Trends** (Wednesday 1500 NZST).
- > **NZ April Credit Card Spending** (Wednesday 1045 NZST). Similar themes to ECT data.
- > **Budget Economic and Fiscal Update** (Thursday 1400 NZST). Personal tax cuts have been well signalled and details will be the major focus of this *Budget*. Given it is an election year we will also be looking for other spending initiatives. Nevertheless, the fiscal accounts are likely to remain strong. The joker in the pack is whether excise (fuel) tax is used to boost incomes and also to assist on the inflation front. However, this may be politically difficult to get a majority to support.

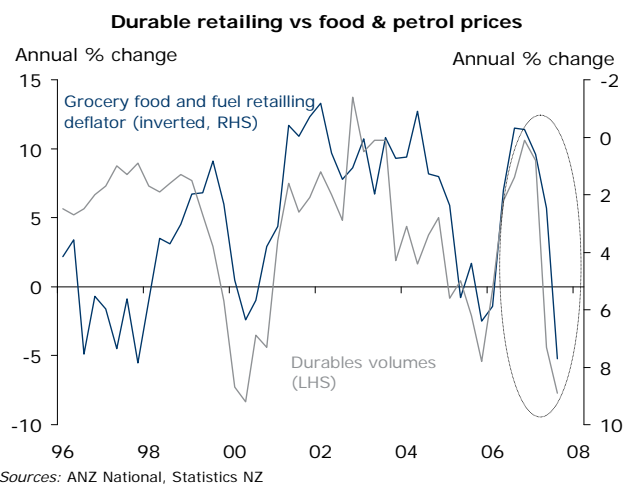
What's the view?

Two common themes were once again to the fore last week. An awful looking real economic picture, but little let up on the inflation front.

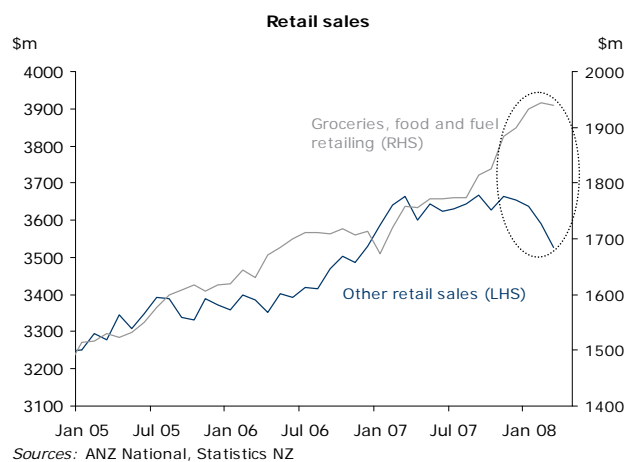
Real economic data continues to portray an economy in reverse. Retail spending contracted in both the March month and quarter, with the latter experiencing the biggest fall in volumes since March 1997. Retail volumes fell 1.2 percent. An early Easter this year is likely to have exaggerated the weakness in sales over the quarter and month (due to the loss of trading days). But even accounting for this, there is no doubt that consumers are shutting their wallets in the face of cost of living pressures.

Weakness is strongest across "big ticket" items, which is exactly what you'd expect as the business cycle turns aggressively down. Car sales, above all, have been weak, with volumes falling 6 percent in the March quarter. Spending on other durables is also contracting, with retail volumes of furniture and floor coverings down 6.5 percent, appliance retailing down 0.4 percent and hardware retailing down 2.8 percent in the quarter. In fact 17 of the 24 industry groups that Statistics NZ survey recorded falls in sales volumes over the quarter. According to Statistics NZ,

the last time there was such a broad-based slowing was in the June 1998 quarter, when the economy was in the midst of a recession.



There is a clear trend in the data where areas inflated by price rises (food and petrol) are literally siphoning money away from other discretionary spending. Given our view that households are entering a period of balance sheet consolidation and de-leveraging, and its hard to see petrol and food prices going down, consumer spending will remain weak for some time. Watch for heavy retail discounting over the coming months as retailers try to reduce inventory levels and entice consumers to part with their dwindling discretionary income. This discounting is expected (in fact required) to be a key factor offsetting petrol and food price inflation over the coming year.



At the same time, the latest REINZ data – the first timely read on Q2 – was of little comfort. Although house sales rose by 13 percent in seasonally adjusted terms in April, this follows a whopping 32 percent fall in March (the early Easter this year causing unusual monthly volatility). Averaging across March and April shows house sales down 27 percent from February, and 49 percent down from a year earlier. The median number of days to sell a house rose to 44 days (45 in seasonally adjusted terms) and the median sale price fell to \$345,000, taking annual growth to -1.1 percent - the first time annual house price growth has turned negative since early 2001. With a gargantuan number

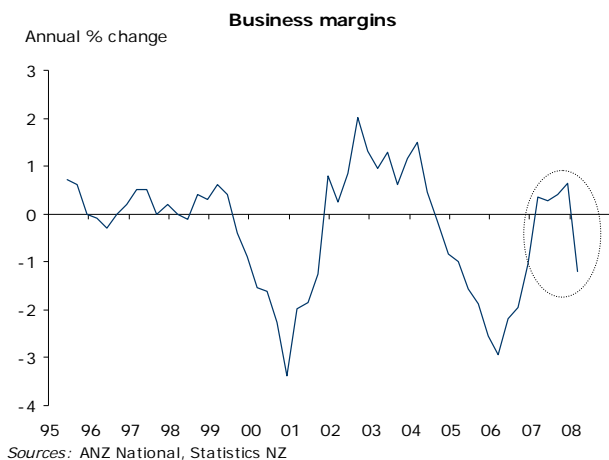
of houses on the market, we expect to see a lot more weakness in prices going forward.

By itself the real economic data is overwhelmingly pointing to interest rates being lowered sooner as opposed to later. Markets are now pricing in almost 120 basis points in cuts over the coming year, which broadly sits with our own view, although we are more inclined to a later start (September) but more aggressive action once the cycle does begin.

This view has quickly become the consensus, and there seems no point sitting on a crowded fence in that regard so page 4 outlines a strategy where the Reserve Bank delivers stabilisation cuts early, but a cycle of less magnitude as opposed to playing catch-up and cutting for Africa after the fact. It's a strategy we have a lot of sympathy for based on our long-held wariness towards the credit cycle. For now we'll resist actively calling it, but will be closely eyeing business lending and liquidity, in particular, over coming weeks.

Turning back to the economic news, last week was also a clear reminder that the inflationary beast is alive and kicking.

Producer price data for the March quarter last week reinforced the cost-push dynamic currently present. Input prices rose by a strong 2.3 percent, while output prices rose by 1.8 percent. The drivers of the strength were all forces ultimately beyond the RBNZ's control, namely electricity, commodity prices and energy, but the implied pipeline inflation pressure suggests the hurdle for a rate cut remains high. Business margins remain under pressure, which is a good thing in terms of acting as an inflation suppressant, but also worrying in terms of the pipeline of price rises that could be in the system. Indeed, our business discussions are noting more and more cost-push inflation pressure from commodity prices and Asia. This means pressure on liquidity in the near-term, and eventually profits if margins cannot be recovered. Businesses are being faced with a simple choice: put up prices, live with lower profits (losses) or cut costs.



It's the latter area we suspect will increasingly come to the fore over the coming months and we'll be closely watching anecdotes coming out of AGM's, employment surveys, and corporate guidance. This also means the equity market should be closely eyed, as a timely

barometer of real-time anecdotes in terms of underlying momentum.

Across other areas, petrol prices were once again on the move upward. Food prices were up a relatively more subdued 0.3 percent in the month, they are up 6 percent on a year ago, and the greatest gains are coming in core areas such as groceries.

Moving to the events this week, there is one event that will dominate all others, and that is the Government's *Budget*. Of course, it is going to be the three letter word starting with T that will be on everyone's minds. Tax cuts have been well signalled, but the specific details have been kept very close to Dr Cullen's chest. We will also be looking out for other spending initiatives as we have that funny feeling that there could be a number of surprises present, particularly with comments like *"it (the Budget) will provide relief for workers who are finding it difficult to make ends meet"* from Dr Cullen in a speech last week but at the same time talking down expectations for personal tax cuts. Reducing the exorbitant tax on petrol may well be one lever pulled that both assists middle to low income families but helps out the RBNZ's inflation challenges. For our full *Budget* preview refer to page 6.

The other data this week is all third-tier in nature. External migration is likely to show net monthly inflows stabilising around current levels of around 400, although the risks do remain to the downside. For electronic transactions data and credit card spending, we will be looking for a rebound following March's early Easter induced weakness. However, the underlying theme will continue to point to softness. The NBNZ *Regional Trends* report should provide a useful early indicator of Q1 GDP.

The international calendar this week is dominated by the release of minutes from recent monetary policy meetings. The Fed, RBA, BoE and BoJ are all due to release minutes. The other important releases will be PMI surveys out of Europe, and the German IFO survey to assess whether the view that European growth is set to slow.

Recent data...

- > **REINZ Housing Report (April).** House sales recovered slightly in seasonally adjusted terms. However, the median number of days to sell a house rose and annual house price growth turned negative for the first time since 2001.
- > **NZ Food Price Index (April).** Food prices rose by 0.3 percent, 6.0 percent annually.
- > **NZ Retail Sales (March).** Total retail sales fell 1.2 percent in March, while core sales fell 0.5 percent. Volumes fell 1.2 percent over the quarter
- > **NZ Producer Price Index (March quarter).** Input prices rose by 2.3 percent, while output prices rose by 1.8 percent.
- > **NZ Capital Goods Price Index (March quarter).** The index rose by 0.5 percent, taking annual growth to 2.5 percent.

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The economy has ground to a screeching halt. The Reserve Bank remains in corroboration mode, wanting to make sure the slowdown is entrenched. A September rate cut remains our central track, which is now the consensus view. However, we are becoming increasingly uneasy over the "late-but more aggressive" easing view. We would not rule out stabilisation cuts, starting earlier, but of less magnitude.

With the economy now stagnant – at best, attention has quickly turned to the Reserve Bank cutting interest rates, beginning in September, and ultimately lowering rates a long way.

The rationale behind September is relatively simple. By that stage the economic slowdown or cold shower is so well entrenched the Reserve Bank has confidence that medium-term pressure on inflation will dissipate. Poor second quarter employment figures and a further rise in the unemployment rate remains key. From a data perspective, one likely negative quarter of GDP (released end of June) will hardly be overly discerning. But you would certainly want to be lowering rates before a potential second negative quarter (due the end of September) and the dreaded "R" becomes official.

Being behind the curve, monetary policy ends up having to do a lot of work, with the credit channel and a large portion of borrowers on fixed lending rates dampening the reflationary impact of monetary policy. Conventional wisdom is that the first stop for monetary policy would be somewhere in the neutral region of six percent, and of course going by history there'd be a fair chance of rates moving below that.

From a forecaster's perspective the above has become the Joe-consensus view, and appears a relatively "safe" trajectory to present. Yet there seems little value in sitting on a crowded fence. We are increasingly being drawn to a potential alternative.

Indeed, a number of aspects to the baseline September scenario leave us wary.

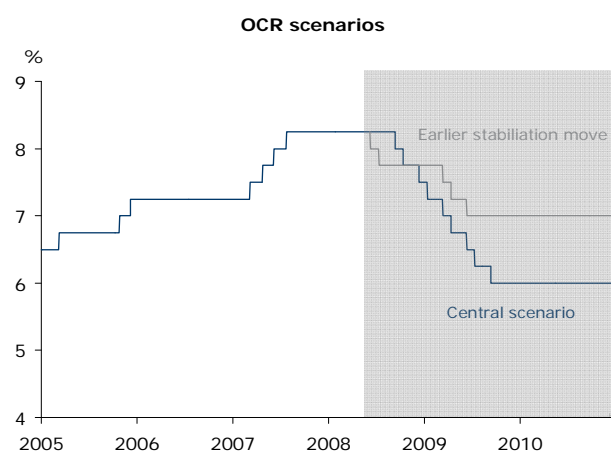
- > The currency would be "toast" under such a prognosis, driving up tradable inflation. While the Reserve Bank will correctly focus on core and non-tradable inflation, the reality is that with inflation averaging 3.0 percent for the past four years, the Reserve Bank will naturally be attuned to the flow-on impact on inflation expectations and wage setting behaviour. Moreover, the danger is that such aggressive movements in the currency become a de-stabilising force in itself. We may desire a lower currency to assist in a rebalancing in growth. Yet we cannot afford a rout, and we are becoming a tad concerned about the offshore interest the NZD is starting to receive across the speculative community. Everyone is talking about it. Powder is being kept dry for now, but a lot are watching. With commodity prices through the stratosphere the Reserve Bank needs a firm

currency to act as a deflationary as opposed to inflationary force.

- > The political economy of monetary policy should not be forgotten. Central banks are independent but it is only operational independence that they have.
- > The Reserve Bank should not need further corroboration. The slowdown has moved beyond a cold shower to an Alaskan dip. Talk to any of the major banks! What we are seeing at present is so far removed from late 2005 (the last economic dip seen in the data in March 2006) that to compare the two, and potential for the current instance to repeat the rope-a-dope reflationary episode leaves us a little amused.
- > The role the credit channel of monetary policy is, and will, play is still not sufficiently understood. Credit is the lifeblood of an economy. The May Financial Stability Report noted Banks taking "a more cautious approach to lending." Credit availability is both a function liquidity (which the Reserve Bank has clearly signalled it will underpin via changes to their liquidity management arrangements) and confidence in the economic environment. The credit accelerator works via asset prices moving up, driving spending, profits, jobs, more credit, higher asset prices, spending and so on. The danger is that a credit decelerator takes hold where falling asset prices reduce spending, profits, leading to layoffs, reduced credit, falling asset prices....and the inward spiral is in motion. Both spirals are heavily behavioural. Credit is usually readily available in the good times, but tightened in others. It is fine telling financial institutions to be prudent in their lending, but not to stop. But you can't have your cake and eat it too, expecting such a dynamic at a time the economy is weakening rapidly. Bottom line is that the turn in the economic cycle has been too aggressive. This risks being exacerbated by the credit channel of monetary policy, particularly if credit growth to the business sector is strongly impacted. A cold shower may be warranted to dampen inflation. However, an Alaskan dip is not.
- > Far too rapid adjustments risk adding a structural dynamic to a cyclical correction. There is no disputing NZ requires a cyclical correction (and something harder than a soft landing), just not of the scorched earth variety. A key risk from a literal crunch is that valuable resources are lost as the ripple effects from a cyclical correction extend too far (and into non-deserving areas of the economy), from which it can take a considerable period for the economy to recover from. Remember, one of the pillars of the Policy Targets Agreement is to avoid unnecessary instability in output, interest rates and the exchange rate (section 4b).
- > September is still almost four months away! If current trends in confidence gauges come to fruition, the tenor of data is going to worsen! Just

look how sharply sentiment has turned from March, when forecasters were placing a non-trivial probability on a hike. We struggle to see the Reserve Bank starting an easing cycle on an OCR Review date (July), which leaves June and September as far more feasible.

We could easily envisage a scenario where, in a similar fashion to the BOE, the Reserve Bank delivers 2 or 3 25 basis point stabilisation (as opposed to reflationary) cuts over the coming three months. Policy is then paused for six months, conditions assessed, and if warranted the rate lever is pulled again, or not. The currency would be expected to still fall from current levels, but likely to settle around the low 70's barrier versus the greenback as opposed to something far lower under the alternative. But the big picture would be one of moving earlier but delivering less in total magnitude.



Of course such a scenario can be easily criticised. There is a fair bit of multiple targeting (inflation and currency) under such an approach, which with one instrument (the OCR) is technically impossible to achieve. The Reserve Bank are inflation targeters and other aspects simply complicate the picture. A look at oil prices each day and the prospect of lower rates is hard to fathom. They have a disinflationary job to do, and should not be afraid to continue delivering the bitter medicine required.

The upshot

Monetary policy will take on pygmy like characteristics over the coming year. None of the potential options will stand tall, and all have some ugly aspects. This is simply the reality of taming the inflationary beast, particularly when being hit with an exogenous credit shock at the same time.

We continue to back a September start to the easing cycle. Yet fundamental concerns we have over the credit aspect leaves us very mindful of the potential for stabilisation cuts to be delivered. We are keeping a particularly close eye on how lending to the business sector tracks.

BUDGET 2008 PREVIEW

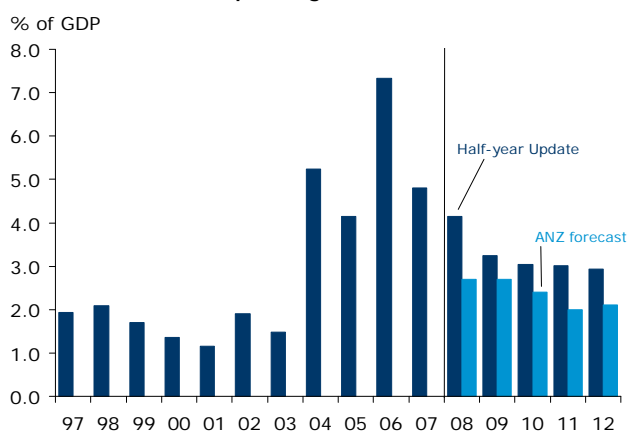
(due 1400 NZST on 22 May)

This week's *Budget* will deliver tax cuts and increased government and investment spending. The altered economic environment means it will no longer be viewed as inflationary, despite the fiscal stance being more expansionary. We are expecting a modest increase in the bond tender programs going forward, rising from \$2.5b to \$3.0b.

The fast changing economic landscape mean this week's *Budget* will be one of the toughest for the Finance Minister, who will be delivering his ninth *Budget*. For the first time in a while, we will be seeing substantial downward revisions to the Government's economic growth and tax revenue forecasts, which mean less headroom for increased spending.

The government is not immune to slowing growth and higher inflation. We expect the Treasury's GDP growth forecasts for the March 2009 year to be revised down from 2.1 percent to 1¼ percent. Forecasts further out will also be revised lower, though by a smaller magnitude. Taking the entire four year forecast horizon, we expect the Treasury's growth forecast to average close to 2.0 percent, compared to the 2.6 percent average forecast in the *Half-year Update*. As a consequence, tax revenue forecasts are expected to be down by between \$1 and \$1½b in some years, excluding the impact of tax cuts. Higher inflation and upward pressure on public sector wages mean baseline spending to run the core public service will rise, which will leave less for other discretionary policy initiatives.

Operating Balance

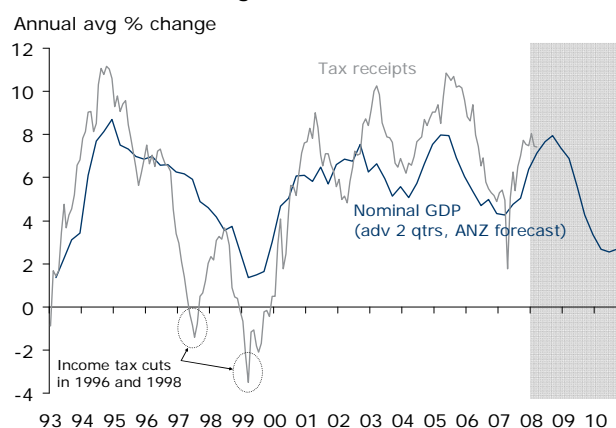


Sources: ANZ National, Treasury

Headline surplus to be lower than forecast but underlying picture still sound. While the expected headline operating balance for the 2008 fiscal year is likely to be between \$2 and \$3b lower than the *Half-year Update*, most of that is due to mark-to-market losses incurred by Crown Financial Institutions (which includes the NZ Super Fund). The OBEGAL, which is a better measure of underlying surplus, is expected to be around \$6b or 3.3 percent of GDP, some \$½b below forecast.

We believe the Government will try to maintain underlying surpluses (OBEGAL) of close to 2 percent of GDP over the forecast period, sufficient to fund contributions to the NZ Super Fund (which is likely to require an increased annual contribution given recent losses) and provide a buffer against unexpected short-falls in tax revenue. Given the deteriorating near-term economic outlook, we will be paying close attention to the risks and scenarios chapter of the *Budget* document to see how low the surpluses could potentially go.

GDP growth and tax take



Sources: ANZ National, Statistics NZ, The Treasury

In a speech last week, the Finance Minister outlined the *Budget's* three broad elements:

- > It will provide relief for the workers who are finding it difficult to make ends meet.
- > It will reaffirm the government's commitment to strong investment in infrastructure and public services and support.
- > It will outline a plan for the future of the economy towards greater sustainability and prosperity.

It remains to be seen how much relief can be provided to workers from \$1.5b or even \$2b for that matter. Recent downplaying of expectations by the Finance Minister suggests that tax cuts may not be too far above the \$1.5b already earmarked. This means a much more targeted approach as opposed to broad based changes to the tax system is on the cards. This will deliver larger tax cuts to those in the lower to middle income brackets, while those on higher incomes will receive substantially less. As for the timing, we suspect it could be in place by 1 October this year (or even 1 July if the Government already has the numbers sewn up and is willing to go into urgency on Budget night). Waiting until 1 April next year is politically risky given the stress households are going through at present. However, we will not rule out some temporary measure to provide immediate relief, such as a one-off tax rebate to middle to low income workers as a stop-gap measure until the tax cuts kick in.

Policies aimed at improving housing affordability would not be surprising. There has been substantial policy work undertaken by the Prime

Minister's department on this issue, and we can expect some assistance for first home owners to be announced on top of the \$35 million shared equity pilot scheme announced last week. Ironically, this is coming at a time when housing affordability is improving already thanks to falling house prices. We suspect an extension of the Welcome Home Loans policy will be announced, though we doubt the Government will go down the route of a first home buyers' grant.

To its credit, the Government has invested a lot in infrastructure to date. The *Budget* will most likely see an increase in the capital allocation from the current \$1.8b over four years. A large part of that will likely be to upgrade the rail network and buy new rolling stock now that it is back in government ownership. The Government's broadband policy is also expected to be a key policy plank in this area.

There will also be the usual increases in health and education baselines to meet wage settlements and maintain core services, as well as other small policy initiatives spread across a range of areas.

It is notable that the government's big "sustainability" policy platform looks to have been relegated to third spot. The delayed Emissions Trading Scheme (ETS) will still play a prominent part in the Government's strategy of meeting the country's Kyoto obligations. We will see what other policies are forthcoming, though the political reality is that climate change issues are now in the back burner as the focus is firmly on helping people cope with higher cost of living pressures.

On balance, we do not expect any big policy surprises like the KiwiSaver booster policy in last year's *Budget*. However, it is myopic to rule anything out in election year although it may well be that some big-bang policy is being held back for a later date (remember interest free student loans?).

The bond tender programme is expected to increase in future years. Less residual cashflow and more investment required means the bond tender programme will rise. We expect the Debt Management Office (DMO) to increase the 2008/09 issuance to \$2.7b, rising towards \$3b further out. This will result

in higher Gross Sovereign-Issued Debt but it will remain well below the Government's 20 percent of GDP target.

Financial Market Implications

Budgets normally elicit a yawn from markets, and on the face of it this one looks no different.

However, there is clearly heightened sensitivity across political circles regarding pressure on household disposable incomes, which is a by-product of inflation. While the consensus is pointing towards tax relief as the assistance mechanism, and Dr Cullen has ruled out cutting GST on food, the joker in the pack may be reduced petrol tax (which has been neither confirmed nor denied). Such reductions would help middle to low income families, while also dampening pressure on the headline inflation rate. However, politically this will be a hard sell given that the Green Party will unlikely be supporting such a move.

The risks still point to a more expansionary fiscal policy than the RBNZ factored in. But this will no longer perturb the RBNZ, for their recent remarks on fiscal policy indicate a shift in their thinking. Recall that at their March *Monetary Policy Statement*, the Bank said that:

"... over the medium term, a tight labour market, strength in commodity prices, and the impact of announced government spending plans and assumed personal tax cuts will add to inflationary pressures."

In their April *Review*, this was toned down to:

"Government spending plans and the possibility of personal tax cuts can also be expected to limit the economic slowdown."

Hence, the RBNZ's view now is that the tax cuts could help put a floor to growth, rather than necessarily add to inflation as was the case before. Note that this shift in stance was prior to the unexpectedly weak Q1 employment and retail sales data. **This means this week's Budget will not be a sticking point to the RBNZ cutting interest rates this year.** We continue to pencil in a September start to the easing cycle, although we cannot rule out an earlier move.

Fiscal Forecasts – Budget 2008* (HYEFU 2007 forecasts in brackets)

June Years	2007/08	2008/09	2009/10	2010/11	2011/12
Operating Balance - \$ million	4,900 (7,388)	5,000 (6,053)	4,500 (5,924)	4,000 (6,094)	4,300 (6,228)
- % GDP	2.7 (4.1)	2.7 (3.2)	2.4 (3.0)	2.0 (3.0)	2.1 (2.9)
OBEGAL - \$ million	6,000 (6,574)	3,500 (4,327)	3,000 (4,062)	2,500 (3,984)	2,800 (3,850)
- % GDP	3.3 (3.7)	1.9 (2.3)	1.6 (2.1)	1.3 (2.0)	1.3 (1.8)
Net Core Crown Debt - % GDP	1.1 (1.1)	1.1 (0.9)	0.9 (0.9)	1.0 (0.9)	1.1 (1.0)
Gross Sovereign-Issued Debt (% of GDP)	18.3 (18.7)	17.5 (17.7)	17.0 (16.3)	17.5 (17.0)	18.0 (15.6)
Bond tender - \$ million	2,500 (2,453)	2,700 (2,459)	2,700 (2,487)	3,000 (2,507)	3,000 (2,497)

* Budget 2008 numbers are ANZ National's expectations of the Treasury's forecasts.

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 was mixed last week. Retail sales were stronger than expected (albeit still soft), as were housing starts. However, consumer confidence hit multi-decade lows and positively for the Fed, inflation was slightly weaker than expected. In Europe, GDP was stronger than expected, driven particularly by Germany. While in the UK, inflation data has seen near-term BoE rate cuts taken off the table.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	Import Price Index (Apr) – mom	1.6%	1.8%	2.9%	Stronger
	Advance Retail Sales (Apr)	-0.2%	-0.2%	0.2%	In-line
	Retail Sales Less Autos (Apr)	0.2%	0.5%	0.4%	Stronger
	CPI (Apr) – mom	0.3%	0.2%	0.3%	Weaker
	CPI Ex Food & Energy (Apr) – mom	0.2%	0.1%	0.2%	Weaker
	Empire Manufacturing (May)	0.0	-3.2	0.6	Weaker
	Industrial Production (Apr)	-0.3%	-0.7%	0.2%	Weaker
	Philadelphia Fed (May)	-19.0	-15.6	-24.9	Stronger
	Housing Starts (Apr)	939k	1,032k	954k	Stronger
	U of Michigan Confidence (May P)	62.0	59.5	62.6	Weaker
Europe	Industrial Production (Mar) – mom	-0.3%	-0.2%	0.3%	Stronger
	GDP (1Q A) – qoq	0.5%	0.7%	0.4%	Stronger
	CPI (Apr) – mom	0.3%	0.3%	1.0%	In-line
	CPI – Core (Apr) – yoy	2.0%	1.6%	2.0%	Weaker
UK	PPI Input (Apr) – mom	1.8%	2.4%	1.7%	Stronger
	PPI Output (Apr) – mom	0.6%	1.4%	1.1%	Stronger
	CPI (Apr) – mom	0.5%	0.8%	0.4%	Stronger
	DCLG House Prices (Mar) – yoy	4.5%	5.2%	6.3%	Stronger
	Claimant Count Rate (Apr)	2.5%	2.5%	2.5%	In-line
	Jobless Claims Change (Apr)	0.0k	7.2k	3.6k	(Weaker)
Asia Ex-Japan					
<i>China</i>	Retail Sales (Apr) – yoy	21.0%	22.0%	21.5%	Stronger
	Money Supply – M2 (Apr) – yoy	16.2%	16.9%	16.3%	Stronger
	Industrial Production (Apr) – yoy	17.5%	15.7%	17.8%	Weaker
	Fixed Assets Inv Urban YTD (Apr) – yoy	26.0%	25.7%	25.9%	Weaker
<i>Singapore</i>	Retail Sales (Mar) – yoy	3.0%	5.6%	-0.8%	Stronger
	Non-Oil Domestic Exports (Apr) – mom	-0.4%	1.6%	-2.6%	Stronger
<i>South Korea</i>	Unemployment Rate (Apr)	-	3.2%	3.1%	-
<i>Malaysia</i>	Industrial Production (Mar) – yoy	4.2%	3.0%	6.5%	Weaker
<i>Indonesia</i>	GDP (1Q) – qoq	2.05%	2.15%	-2.15%	Stronger
<i>India</i>	Industrial Production (Mar) – yoy	5.8%	3.0%	8.6%	Weaker
Japan	Machine Orders (Mar) – mom	-5.1%	-8.3%	-12.3%	Weaker
	GDP (1Q P) – qoq	0.6%	0.8%	0.6%	Stronger
	Industrial Production (Mar F) – mom	-3.1%	-3.4%	-3.1%	Weaker
	Consumer Confidence (Apr)	37.8	35.4	37.0	Weaker
Australia	NAB Business Confidence (Apr)	-	-8	-4	-
	Wage Cost Index (1Q) – qoq	1.1%	0.9%	1.1%	Weaker

INTEREST RATE STRATEGY

Profit taking from last week could continue as rates market range trade ahead of *Budget* and towards the June *MPS*. Bias more towards the payside early in the week on back of mortgage flows and as markets pare back expectations of early rate cuts.

Market themes...

- > NZ dataflow continues to print consistently weak.
- > Rates market unwilling to rally any further in absence of a change in RBNZ's stance.
- > Budget unlikely to perturb the RBNZ too much.

Review and outlook...

Following on from the massive rally the previous week in response to the weak Q1 labour market data, the market was primed for a weak March retail sales print as a follow up. While the retail sales data was unequivocally weak and suggests that Q1 GDP will be negative, the rates market failed to rally on the back of it. Instead, the swaps curve closed the day higher, which was unexpected given that we have seen the largest quarterly decline in retail sales growth since 1997.

The reluctance of rates to rally further is an indication that the market has pushed it as far as it is comfortable in terms of the easings priced in (four and a half cuts over 12 months). For rates to continue rallying from this point on would require the RBNZ to actually start easing (or at the very least, signal that it is prepared to ease soon). Profit taking also set in late last week, which saw the swaps curve close the week higher.

Profit taking could continue this week as only third tier data is on offer and there is the prospect of Thursday's *Budget* proving to be more expansionary. However, as we outlined in our *Budget* preview on page 6, the economic landscape has changed such that fiscal policy is no longer viewed as adding to inflationary pressure. The market is likely to range trade for most of the week with volumes likely thin. The bias will be towards the payside early in the week on mortgage flows and as the market pares back expectations of a June easing.

We remain comfortable with our core strategy of receiving the 3 to 5 year part of the curve. The rates outlook is expected to shift from the timing of the easing cycle towards how low the OCR will go. Should economic prospects deteriorate more substantially, then there is the risk that the OCR may fall by more than the market is currently pricing. In this environment, we like a 2s10s steepener position.

Across the Tasman, the data continues to print soft and wages failed to provide a smoking gun for the RBA. It remains a case of waiting and watching, though the risk for rates remains to the upside in Australia. In offshore events this week, we get the minutes of recent Fed, BoE, RBA and BoJ meetings. The BoJ is announcing its interest rate decision,

though a no change is widely tipped. Eurozone PMI, German IFO and UK provisional GDP data will be of interest to see how growth is faring in the face of a severe US slowdown.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔/↓	Continued deterioration in the local dataflow could yet see the RBNZ blink early.
NZ data	↔	Data to take a back seat to the Budget this week.
Fed Funds/front end	↔	Noises coming out from Fed speakers suggest FOMC on hold for now.
RBA	↔	Wages failed to provide a smoking gun. RBA to keep waiting and watching.
US 10 year	↔/↑	Bond yields probing resistance levels though market still trading off equities.
NZ swap curve	↔/↑	Despite data, curve has flattened on profit taking.
Flow	↔/↑	Profit taking on curve and outrights. Mortgage flows to add to payside bias.
Technicals	↔	Technically, the market is ready for rate cuts but is taking a breather after large moves over recent weeks.

Borrowing strategies we favour at present

Given the shift in market sentiment towards an earlier easing cycle, we suggest borrowers target the 1-year space, which benefits from positive pick-up and also based on our core economic view that the RBNZ will ease in September. Borrowers should be able to reset at substantially lower levels in a year's time.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 5-Jun-08	-48	-21
Thu 24-Jul-08	-116	-67
Thu 11-Sep-08	-196	-155
Thu 23-Oct-08	-268	-239
Thu 4-Dec-08	-328	-311
Thu 22-Jan-09	-388	-379
Thu 5-Mar-09	-448	-439

Trading themes we favour at present

Stick with core strategy of receiving the belly of the curve (3-5 year), but close out of paying the 2-year as a hedge. Consider putting on a 2s10s steepener.

CURRENCY STRATEGY

Although a sharply weaker domestic economy leaves the NZD vulnerable, moves higher this week against the greenback cannot be ruled out as the kiwi rides along in kanga's pouch and positions are squeezed. But a by-product should also be moves lower vis-à-vis the AUD.

Market themes...

- > The kiwi looks on borrowed time given the current domestic macro-environment.
- > But a stronger AUD and weaker USD is reluctantly pulling it higher.
- > *Budget* this week the focus, but unlikely to get much financial market reaction.

Review and outlook...

The trend in the domestic dataflow is undeniably negative. March quarter retail sales data last week highlighted that housing weakness is now clearly broadening and we suspect the economy as a whole contracted over the first quarter. This leaves the NZD on borrowed time and we expect it to continue to trend lower over coming months, while not ruling out a sharper, more aggressive fall.

However, there are a couple of factors that appear to be limiting the moves lower at present, and have even seen the kiwi bounce off support levels. The first is a stronger AUD. Improving risk appetites around the globe as equity markets recover, strong fundamentals (particularly a booming terms of trade), and the outlook for the RBA who are expected to keep interest rates at current levels for sometime with the risks pointed higher, are all lifting the AUD. The AUD rose to its highest levels against the USD since 1984 last week and the NZD was dragged along on its coat tails. Around the globe, the EUR/USD has also firmed, and it is back to the classic two-sided coin where if the USD is going down, the NZD is going up.

Another factor we are watching is market positioning. The market is well aware of the slowing NZ economy and according to IMM data for the week ending 13 May the market has on the lowest net long position since mid-2006. But the IMM data only makes up a portion of the speculative market. Our general feeling at present is that there is a lot of talk (fear) about short positioning in kiwi, but the actual reality is not. Most seem happy to sit and wait for better levels.

Looking forward, global factors (AUD) see the NZD possibly extend recent moves higher, although it is currently sitting near major resistance. One thing is for sure is that the NZD/AUD will continue to move lower. The two economies are clearly at different stages of their business cycles at present and we are not ruling out a break below 0.80AUD this week.

Moving to the data calendar, the major focus locally will be on the Government's *Budget*, with the other data releases all third-tier in nature (migration and credit card spending). Although the *Budget* is unlikely

to get too much reaction in currency markets, there remain a number of uncertainties around the details of tax cuts and other spending initiatives.

The offshore calendar is dominated by the release of minutes from recent interest rate announcements for the RBA, Fed, BoE, and BoJ. Much interest will be on any discussion in the Fed minutes on increased inflationary pressures. In Europe some key forward indicators, such as PMI's and the German IFO survey, will be critical to assess whether recent GDP strength is going to be sustained for the rest of the year.

On a technical basis, the NZD's rejection of the down side now leaves it in limbo and we suspect a range trade could develop with a 0.7430 to 0.7960 range expected to last for some time. The NZD/AUD still has a lot of room lower over the next 6 months. Sell any approach to 0.8270, with 0.7700 certainly attainable.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↓	Yield spreads narrowing.
Commodities	↑	Both hard and softs improving.
Partial indicators	↓	Better across the Tasman.
Technicals	↓	Solid resistance at 0.8270 sell here if you can.
Sentiment	↓	Terms of trade says it all.
Other	↔	Watch market positioning.
On balance	↓	Moving lower.

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. AUD strength supporting.
Yield	↔	Yield convergence complete for the moment.
Commodities	↔	Still a key one to watch.
Risk aversion	↔/↑	Positive sentiment returns.
Partial indicators	↓	NZ data now looking weaker than US.
Technicals	↔	Range. 0.7430-0.7960 for some time.
AUD	↔/↑	Will the RBA need to hike?
Sentiment	↔	Market bearish.
Other	↔/↑	Genuine interest from Fed to fix banking gridlock.
On balance	↔/↓	RBNZ will need to cut in June to break range.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
19 May	UK	Rightmove House Prices (May) – mom	-	-0.1%	11:01
	NZ	Performance of Services Index (Apr)	-	-	12:00
	AU	Preliminary BoP Imports (Apr) – mom	-	1.0%	13:30
20 May	US	Leading Indicators (Apr)	0.0%	0.1%	02:00
	NZ	Visitor Arrivals (Apr) – mom	-	-0.3%	10:45
		External Migration (Apr) – 12-mth total	-	4,678	10:45
	JN	Tertiary Industry Index (Mar) – mom	0.5%	-1.7%	11:50
		BoJ Interest Rate Announcement	0.50%	0.50%	-
		Coincident Index (Mar F)	-	33.3%	17:00
		Leading Economic Index (Mar F)	-	20.0%	17:00
		BoJ Monthly Report	-	-	18:00
	AU	RBA minutes	-	-	13:30
	GE	Producer Prices (Apr) – yoy	0.5%	0.7%	18:00
		ZEW Survey (Economic Sentiment) (May)	-37.0	-40.7	21:00
		ZEW Survey (Current Situation) (May)	32.0	33.2	21:00
	EU	ZEW Survey (Economic Sentiment) (May)	-44.2	-44.8	21:00
21 May	US	PPI (Apr) – mom	0.4%	1.1%	00:30
		PPI Ex Food & Energy (Apr) – mom	0.2%	0.2%	00:30
		PPI (Apr) – yoy	6.7%	6.9%	00:30
		PPI Ex Food & Energy (Apr) – yoy	2.9%	2.7%	00:30
		IBD/TIPP Economic Optimism (May)	37.8	39.2	02:00
	AU	Westpac Consumer Confidence (May)	-	-1.3%	12:30
		New Motor Vehicle Sales (Apr) – mom	-	1.0%	13:30
	NZ	Credit Card Spending (Apr) – yoy	-	3.5%	15:00
	GE	IFO – Business Climate (May)	102.0	102.4	20:00
		IFO – Current Assessment (May)	108.0	108.4	20:00
		IFO – Expectations (May)	96.4	96.8	20:00
	UK	BoE Minutes	-	-	20:30
		Public Finances (PSNCR) (Apr)	-2.5B	12.7B	20:30
		Public Sector Net Borrowing (Apr)	1.5B	10.2B	20:30
		M4 Money Supply (Apr P) – mom	0.6%	0.8%	20:30
		M4 Sterling Lending (Apr P)	16.0B	17.4B	20:30
22 May	US	Fed Minutes	-	-	06:00
	JN	Merchandise Trade Balance Total (Apr)	739.0B	1,114.4B	11:50
		All Industry Activity Index (Mar)	-0.2%	-1.4%	11:50
	AU	Consumer Inflation Expectation (May)	-	11.2%	12:30
	NZ	Finance Minister Cullen Delivers Budget 2008	-	-	-

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
22 May cont.	UK	Retail Sales (Apr) – mom	-0.5%	-0.4%	20:30
		Total Business Investment (1Q P) – qoq	0.3%	1.8%	20:30
	EU	Industrial New Orders (Mar) – mom	-0.5%	0.6%	21:00
23 May	US	Fed's Kroszner speaks to State Banking Regulators in Florida	-	-	01:15
		House Price Index (Mar) – mom	-	0.6%	02:00
		House Price Index (1Q) – qoq	-1.3%	0.1%	02:00
	JN	BoJ Minutes	-	-	11:50
	GE	PMI Manufacturing (May A)	53.2	53.6	19:30
		PMI Services (May A)	54.0	54.9	19:30
	EU	PMI Manufacturing (May A)	50.5	50.7	20:00
		PMI Services (May A)	51.7	52.0	20:00
		PMI Composite (May A)	51.5	51.9	20:00
	UK	GDP (1Q P) – qoq	0.4%	0.4%	20:30
		GDP (1Q P) – yoy	2.5%	2.5%	20:30
24 May	US	Existing Home Sales (Apr)	4.85m	4.93m	02:00
		Existing Home Sales (Apr) – mom	-1.6%	-2.0%	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 dataflow has undeniably turned negative and consistent with an economy that is flat, at best. The big focus this week is the Government's *Budget* and what tax and other spending initiatives will be put forward. Looking further out the next NBNZ *Business Outlook* will also be key to determine whether March quarter weakness is being sustained into the June quarter.

Date	Data/Event	Economic Signal	Comment
Tue 20 May (10.45)	External Migration (Apr)	Is a base forming?	The 3-month annualized inflow is expected to remain around 3,000. However, the risks do appear skewed to the downside.
Wed 21 May (10.45)	Electronic Card Transactions (Apr)	Bounce	An early Easter this year likely contributed to the softness in March. We expect a small bounce in sales in April, although underlying weakness will remain.
Wed 21 May (15.00)	NBNZ Regional Trends (Jun qtr)	-	-
Wed 21 May (15.00)	Credit Card Spending (Apr)	Bounce	An early Easter this year likely contributed to the softness in March. We expect a small bounce in sales in April, although underlying weakness will remain.
Thu 22 May (14.00)	Budget Economic and Fiscal Update	Tax cuts, how much and when?	Personal tax cuts have been well signalled and details will be the major focus of this Budget. Given it is an election year we will also be looking for other spending initiatives. Nevertheless, the fiscal accounts are likely to remain strong.
Mon 26 May (10.45)	Overseas Merchandise Trade (Apr)	Small deficit	Another small monthly trade deficit is expected, with record high oil prices increasing the value of imports.
Tue 27 May (15.00)	RBNZ Expectations Survey (Jun qtr)	Elevated	Given petrol and food price increases, along with the Government's emissions trading scheme, inflation expectations will remain elevated. We expect the key 2-year ahead measure to remain around current levels of 2.7 percent.
Thu 29 May (15.00)	National Bank <i>Business Outlook</i> (May)	-	-
Thu 29 May	Credit Growth (Apr)	Soft	This should remain soft in line with weakness in the housing market.
Fri 30 May (10.45)	Building Consents Issued (Apr)	Weak	Given the extent of softness in monthly house sales volumes, along with muted net migration inflows, we expect building consent issuance to continue to track lower.
Wed 4 Jun (15.00)	ANZ Commodity Price Index (May)	-	-
Thu 5 Jun (09.00)	RBNZ <i>Monetary Policy Statement</i>	Softer tone	With evidence mounting that the economy is slowing rapidly, the RBNZ is likely to soften the tone of their statement. Both growth and inflation forecasts are likely to be revised lower.
Thu 5 Jun (10.45)	Wholesale Trade Survey (Mar qtr)	Weak	We expect wholesale trade activity to be weak, in line with developments in the retail sector.
Mon 9 Jun (10.45)	Value of Building Work Put in Place (Mar qtr)	Contracting	We expect both residential and non-residential construction work to have contracted in the quarter.
Wed 11 Jun (10.45)	Overseas Trade Indexes (Mar qtr)	Higher terms of trade	The terms of trade is expected to rise in the quarter due to still elevated export prices. Volume data should confirm that net exports will contract from growth in Q1.
Thu 12 Jun (10.45)	Food Price Index (May)	Elevated	Given elevated commodity prices around the globe, annual food price inflation is expected to remain at high levels.
Fri 13 Jun (10.45)	Retail Sales (Apr)	Bounce	Along with ECT and credit card spending data, we expect retail sales to rebound slightly in April given the early Easter induced weakness in March. Nevertheless, the underlying trend will remain weak.
On Balance		An economy heading backwards, but with inflation	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	-0.3	-0.3	0.1	0.2	0.3	0.5
GDP (% yoy)	2.3	3.2	3.3	3.7	2.1	0.9	0.5	-0.3	0.3	1.1
CPI (% qoq)	0.5	1.0	0.5	1.2	0.7	1.0	0.9	0.8	0.4	0.7
CPI (% yoy)	2.5	2.0	1.8	3.2	3.4	3.3	3.7	3.4	3.1	2.8
Employment (% qoq)	1.4	0.5	-0.3	0.9	-1.3	0.2	-0.2	0.0	0.1	0.1
Employment (% yoy)	1.8	1.5	1.6	2.5	-0.2	-0.6	-0.4	-1.3	0.1	0.0
Unemployment Rate (% sa)	3.7	3.6	3.5	3.4	3.6	3.8	4.0	4.2	4.3	4.5
Current Account (% GDP)	-8.2	-8.1	-8.4	-7.9	-7.5	-6.9	-6.5	-6.5	-6.5	-6.5
Terms of Trade (% qoq)	1.5	0.4	3.7	2.9	2.0	0.0	-1.0	0.0	-1.5	-1.2
Terms of Trade (% yoy)	4.5	2.3	8.4	8.8	9.3	8.8	4.0	1.0	-2.5	-3.6

KEY ECONOMIC INDICATORS

	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08
Retail Sales (% mom)	0.2	0.2	1.1	-0.5	1.8	0.1	0.2	-0.6	-1.2	..
Retail Sales (% yoy)	5.7	6.3	4.1	5.8	7.2	5.4	6.3	7.7	-1.0	..
Credit Card Billings (% mom)	0.1	0.4	2.5	-0.6	1.2	0.5	-	0.5	-2.7	..
Credit Card Billings (% yoy)	7.8	8.5	9.4	7.7	9.4	7.6	8.6	8.0	3.5	..
Car Registrations (% mom)	6.9	1.0	-6.7	5.6	-3.6	-2.7	6.1	-4.5	-13.5	13.9
Car Registrations (% yoy)	7.0	10.9	0.1	4.7	2.3	1.4	1.7	1.9	-13.2	-1.0
Building Consents (% mom)	-15.4	4.4	-8.9	-5.4	0.9	-4.1	2.7	-6.6	-9.1	..
Building Consents (% yoy)	-4.5	-1.8	-14.9	-16.5	-4.5	-6.2	-5.0	-18.0	-26.4	..
REINZ House Price (% yoy)	10.4	12.9	12.3	8.0	6.7	4.5	4.0	0.7	1.6	-1.1
Household Lending Growth (% mom)	0.8	0.9	0.8	0.9	0.8	0.7	0.7	0.8	0.5	..
Household Lending Growth (% yoy)	13.7	13.6	13.2	13.0	12.8	12.3	11.9	11.6	10.8	..
Roy Morgan Consumer Confidence	121.1	122.4	121.3	122.0	121.9	126.6	121.2	116.0	111.7	99.9
NBNZ Business Confidence	-38.5	-33.8	-26.5	-12.9	-19.6	-24.9	..	-43.9	-57.9	-54.8
NBNZ Own Activity Outlook	12.4	16.7	17.2	20.3	15.7	18.2	..	2.4	-6.4	-3.8
Trade Balance (\$m)	-808	-947	-572	-774	-628	39	-313	249	-50	..
Trade Balance (\$m annual)	-6340	-6336	-6282	-5883	-5691	-5307	-4795	-4418	-4529	..
ANZ World Commodity Price Index (% mom)	4.6	1.4	0.4	1.8	0.8	0.0	-1.4	1.1	2.0	-0.3
ANZ World Commodity Price Index (% yoy)	35.1	36.3	35.7	37.8	35.9	30.9	27.4	26.9	26.9	20.7
Net Migration (sa)	460	770	640	250	460	30	110	240	490	..
Net Migration (annual)	8966	8730	8309	7517	6588	5491	4799	4643	4678	..

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)						
	Mar-08	Apr-08	19-May-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
NZD/USD	0.801	0.791	0.773	0.750	0.740	0.690	0.660	0.640	0.630	0.620
NZD/AUD	0.867	0.851	0.810	0.798	0.804	0.767	0.759	0.762	0.778	0.795
NZD/EUR	0.517	0.502	0.496	0.487	0.490	0.469	0.465	0.464	0.474	0.488
NZD/JPY	81.0	81.1	80.4	76.5	74.0	70.4	69.3	69.1	69.3	70.1
NZD/GBP	0.400	0.399	0.395	0.375	0.379	0.359	0.349	0.344	0.342	0.341
NZ\$ TWI	71.5	70.4	68.9	66.9	66.6	63.0	61.6	60.9	61.2	61.7
NZ interest rates	Mar-08	Apr-08	19-May-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
OCR	8.67	8.60	8.25	8.25	8.00	7.50	7.00	6.50	6.00	6.00
90 day bill	8.90	8.87	8.64	8.70	8.20	7.60	7.10	6.50	6.20	6.20
10 year bond	6.37	6.48	6.40	6.50	6.60	6.20	5.70	5.60	5.50	5.40
International	Mar-08	Apr-08	19-May-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
US Fed funds	2.25	2.00	2.00	1.50	1.50	1.50	1.50	1.50	2.00	2.50
US 3-mth	2.69	2.85	2.70	2.50	2.00	1.75	1.75	2.00	2.50	3.00
AU cash	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	6.75	6.00
AU 3-mth	7.86	7.80	7.77	7.70	7.60	7.50	7.40	7.10	6.60	5.80

KEY RATES

	16 Apr	12 May	13 May	14 May	15 May	16 May
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
90 day bank bill	8.87	8.64	8.63	8.68	8.63	8.64
NZGB 07/09	6.97	6.75	6.72	6.71	6.65	6.69
NZGB 11/11	6.70	6.50	6.48	6.48	6.40	6.41
NZGB 04/13	6.61	6.45	6.44	6.46	6.36	6.37
NZGB 12/17	6.42	6.33	6.32	6.37	6.36	6.37
2 year swap	8.10	7.71	7.67	7.73	7.74	7.80
5 year swap	7.62	7.43	7.42	7.46	7.46	7.50
RBNZ TWI	69.8	68.5	68.6	68.4	68.0	68.5
NZD/USD	0.7846	0.7649	0.7686	0.7621	0.7564	0.7645
NZD/AUD	0.8469	0.8157	0.8127	0.8123	0.8118	0.8091
NZD/JPY	79.79	79.01	79.75	79.83	79.39	80.02
NZD/GBP	0.3998	0.3926	0.3934	0.3920	0.3886	0.3927
NZD/EUR	0.4966	0.4959	0.4948	0.4932	0.4887	0.4941
AUD/USD	0.9264	0.9377	0.9457	0.9382	0.9317	0.9449
EUR/USD	1.5800	1.5426	1.5532	1.5452	1.5478	1.5472
USD/JPY	101.70	103.29	103.76	104.75	104.96	104.67
GBP/USD	1.9625	1.9484	1.9538	1.9442	1.9466	1.9469
Oil	114.93	125.94	124.02	125.83	124.21	124.25
Gold	938.80	884.15	877.60	866.75	863.70	881.85
Electricity (Haywards)	10.12	22.47	23.57	22.34	29.65	28.38
Milk futures (US\$/contract)	136	139	139	139	139	139
Baltic Dry Freight Index	7967	10220	10354	10649	11067	11459

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