

ALONG FOR THE RIDE

NZ Economics Team:

Cameron Bagrie

Chief Economist
Telephone: +64 4 802 2212
E-mail: bagrie@anz.com

Khoon Goh

Senior Economist /
Interest Rate Strategist
Telephone: +64 4 802 2357
E-mail: gohk@anz.com

Philip Borkin

Economist
Telephone: +64 4 802 2199
E-mail: borkinp@anz.com

Steve Edwards

Economist
Telephone: +64 4 802 2217
E-mail: edwards1@anz.com

Kevin Wilson

Economist
Telephone: +64 4 802 2199
E-mail: wilsonk1@anz.com

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- > International events continue to dominate. While US policymakers (both the Fed and the White House) are set to provide considerable stimulus in the US, the major uncertainty remains how credit dislocation impacts on asset valuations, on credit availability and the real economy. Domestically, it is largely second tier data on offer, and we expect a weaker tone. Across the Tasman, the path of least regret for the RBA now looks to be to a hike given strong core inflation reads.

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- > We present a table of global data outturns over the past week given the significance of the international backdrop at present. It was relatively quiet on the international data front this past week. US house sales remain weak, while European PMI's were mixed in terms of a comparison with market expectations (although still easing from the previous month's levels). The wave of Chinese data released all remains strong, with retail sales and industrial production growing faster than expected. Strong Australian CPI data suggests the next move from the RBA could be a hike.

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ECONOMIC OVERVIEW

International events continue to dominate. While US policymakers (both the Fed and the White House) are set to provide considerable stimulus in the US, the major uncertainty remains how credit dislocation impacts on asset valuations, on credit availability and the real economy. Domestically, it is largely second tier data on offer, and we expect a weaker tone. Across the Tasman, the path of least regret for the RBA now looks to be to a hike given strong core inflation reads.

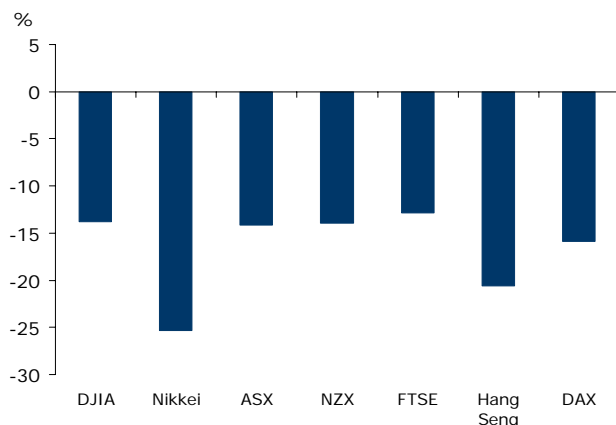
What's ahead?

- > **NZ December Building Consents Issued** (Wednesday 1045 NZDT). Further declines in residential consent issuance are expected. But we expect commercial consent issuance to hold up.
- > **NZ December Credit Growth** (Wednesday 1500 NZDT). Given that housing market activity remains subdued, credit growth is likely to remain soft.
- > **NZ December Overseas Merchandise Trade** (Thursday 1045 NZDT). The annual trade balance should continue to improve given high dairy prices and solid production from the Tui oil field supporting export values. However, higher oil prices will provide some offset.

What's the view?

The domestic economy continues to take a back seat to global developments. This was no less apparent on Thursday when a 300 point rally in the DJIA late in the session dragged both the 2 year swap yields and currency higher, despite the RBNZ's *OCR Review* earlier eliciting a muted response. Indeed price action this week was decidedly confusing. After selling off in response to stronger US equities on Thursday, the NZ interest rate market came roaring back on Friday following the Governor's annual address to the Canterbury Employers' Chamber of Commerce.

Equity market movements since 2007 peaks



Sources: ANZ National, Bloomberg

Markets continue to show volatile swings with equities now in a bearish mode. It was nothing short of

carnage early in the week, with massive falls in equities around the globe and beyond US borders. The German DAX fell over 12 percent in the space of a few days and the FTSE was down 5 percent over the same period. A surprise 75 basis point cut by the Fed and rumours of a rescue package for bond insurers acted as a circuit breaker mid-week, although by Friday night US equities were once again back in the red.

Stepping back, there is certainly a lot of rumour and innuendo. Stories regarding large European banks and mortgage insurers were rampant. And what about the massive liquidation of positions by SocGen (France's second largest bank), which surely played some role in the turmoil early in the week. To be fair there were rumours of intra-meeting moves by the Fed for the preceding two weeks so we'll give them the benefit of the doubt.

So what do we make of it all?

- Equity markets remain the key directional bellwether. All markets including bonds, commodities and currencies are taking their cues from movements in stock markets at the moment, particularly in the US. We were interested to see some soft commodities such as corn, soy, and wheat also getting caught in the rip of equity/growth sentiment. Testament to the fact that when push comes to shove, commodities retain their traditional link to the global growth cycle despite having some supply-side legs of support.
- Don't underestimate the power of policymakers to respond. The Fed delivered their biggest interest rate cut (75 basis points) in 23 years last week (and another 50 basis points is expected this week). The Bush administration has come out with an assistance package of tax incentives to help both US households and businesses. Insurance regulators are attempting to pull together a rescue package for ailing bond insurers MBIA and Ambac. Such forces will eventually underwrite a rebound in the US. Even locally, Finance Minister Dr Cullen has stated that the Government accounts are in a sound position to weather a global and local downturn and will be in a position to provide support if need be.
- It's a familiar credit story. Financial stocks remain pressured. Credit spreads remain wide. As noted by the Fed, financial conditions have tightened. US lenders remain reluctant to put cash to work, or have limited capital to put to work, as credit dislocation persists. If financial intermediaries are not lending, the Fed may end up pushing on a string. The major uncertainty at present is how the real side of the economy responds to an altered credit environment as financial institutions restore their balance sheets. The danger is that diminished appetites to lend sets off a chain of events where asset prices fall (correct from extended levels), consumers stop spending, delinquencies rise, financial conditions

tighten again, asset prices fall... and the spiral is in motion. Given the powerful force the credit-accelerator has played in supporting growth over the past few years, we continue to take a circumspect stance over how it will impact in reverse as the credit cycle unfolds.

- The recoupling/decoupling debate remains key, particularly for New Zealand. As great believers in globalisation we find it difficult not to err more on the recoupling side. The real issue is to what degree Asia's prospects are dented by weak US growth. Figures last week out of China showed good momentum. Commodity prices remain on tenterhooks yet supported on dips. But the Baltic Dry Index, which covers dry bulk shipping rates and is one of our favoured indicators, continued to ease all of last week.

So for now it's a familiar story of watching and waiting to see how these major forces dictate prospects. The Reserve Bank is adopting the same stance, with last week's *OCR Review* once again citing familiar inflationary pressures, but also increased international risks to the outlook. They, like us, will be closely watching prospects for Asia and commodity prices in general. On that front we note that nonfat dry milk futures (which show a reasonable correlation to Oceania skim milk and whole milk powder prices) fell another 3.5 percent last week (refer page 11). We get another reading from the USDA on dairy prices late in the week and we'll be watching closely to see if prices have continued their easing path (albeit off a massive surge). Others such as beef and lamb remain steady at this stage.

Domestically, it was relatively quiet on the data front. Both credit card spending and electronic transactions data were soft in December and suggest the Christmas period was not a strong one for retailers. Some perspective needs to be taken given the strength shown in November, but nevertheless, still indicative of a retail trend that remains flat.

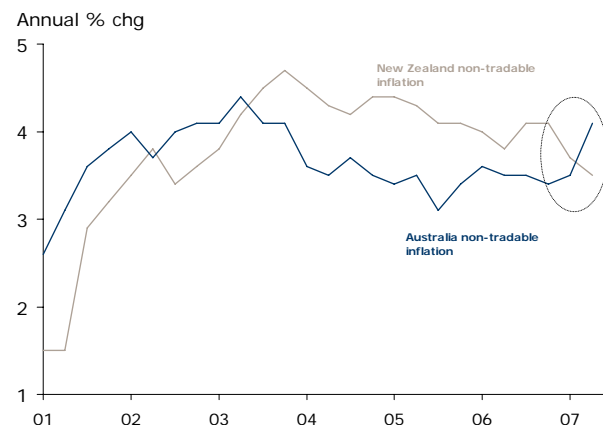
The main focal point this week is likely to reside in building consents. While the trend on an ex-apartment basis has been falling by 1 percent a month over the past four months, it has held up well considering the sharp decline in house sales seen over the second half of last year. Given the traditional lags between house sales and consent issuance, we expect the declining trend in building consents to pick up over the months ahead. But commercial consent issuance should continue to hold up given still strong demand for office space and farm buildings in certain sectors of the economy.

There is much to digest on the global front. The main event is the FOMC decision on 31 January (NZDT), with the markets looking for a 50 basis point cut. How the US economy fared at the end of 2007 will also be revealed with US Q4 GDP data out. But the key economic data will be the January nonfarm payrolls data at the end of the week. A weak print will be jumped on by the markets as signalling a stronger

likelihood of the US economy heading into recession (if it is not already in one).

Looking across the Tasman, last week's strong core inflation indicators looked to have backed the RBA into a corner. With non-tradable inflation running at 4.1 percent, other core inflation measures above 3 percent and the Australian domestic data continuing to print on the strong side, the path of least regret now looks to be a hike on 5 February.

Who now has the bigger problem?



Sources: ANZ National, Statistics NZ, RBA

Inflation gauge	NZ	Australia
Non-tradable		
quarterly % chg	0.7%	1.3%
annual % chg	3.5%	4.1%
Weighted median		
quarterly % chg	0.7%	1.1%
annual % chg	3.2%	3.8%
Trimmed mean		
quarterly % chg	1.1%	1.0%
annual % chg	3.5%	3.4%

Recent data...

- > **RBNZ OCR Review.** The RBNZ left the OCR unchanged at 8.25 percent. The accompanying statement was relatively balanced highlighting the usual inflationary concerns but also acknowledging a higher than normal degree of uncertainty.
- > **Credit Card Billings (December).** Credit card spending rose 0.3 percent, following a 1.2 percent increase in November.
- > **Electronic Transactions Data (December).** The value of retail related transactions was flat in December, after 1.9 percent growth in November.

GLOBAL WATCH

We present a table of global data outturns over the past week given the significance of the international backdrop at present. It was relatively quiet on the international data front this past week. US house sales remain weak, while European PMI's were mixed in terms of a comparison with market expectations (although still easing from the previous month's levels). The wave of Chinese data released all remains strong, with retail sales and industrial production growing faster than expected. Strong Australian CPI data suggests the next move from the RBA could be a hike.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	Richmond Fed Manufacturing Index (Jan)	-5	-8	-4	Weaker
	Existing Home Sales (Dec) - mom	-1.0%	-2.2%	0.4%	Weaker
Europe	PMI Manufacturing (Jan A)	52.1	52.6	52.3	Stronger
	PMI Services (Jan A)	52.8	52.0	53.1	Weaker
	PMI Composite (Jan A)	52.6	52.7	53.3	In-line
UK	M4 Money Supply (Dec P) – yoy	11.0%	12.3%	11.7%	Stronger
	GDP (4Q A) – qoq	0.5%	0.6%	0.7%	Stronger
Asia Ex-Japan					
<i>China</i>	GDP (4Q) – yoy	11.3%	11.2%	11.5%	In-line
	Producer Price Index (Dec) – yoy	4.8%	5.4%	4.6%	Stronger
	Consumer Price Index (Dec) – yoy	6.5%	6.5%	6.9%	In-line
	Retail Sales (Dec) – yoy	18.6%	20.2%	18.8%	Stronger
	Industrial Production (Dec) – yoy	17.2%	17.4%	17.3%	Stronger
<i>Singapore</i>	CPI (Dec) – yoy	4.3%	4.4%	4.2%	In-line
	Industrial Production (Dec) – mom	-1.3%	-1.7%	-0.5%	Weaker
<i>Thailand</i>	Customs Exports (Dec) – yoy	-	19.0%	24.4%	-
	Customs Imports (Dec) – yoy	-	8.8%	17.4%	-
<i>Philippines</i>	Total Imports (Nov) – yoy	-	12.7%	9.9%	-
<i>South Korea</i>	GDP (4Q) – qoq	1.3%	1.5%	1.3%	Stronger
<i>Malaysia</i>	CPI (Dec) – yoy	2.4%	2.4%	2.3%	In-line
Japan	BoJ Interest Rate Announcement	0.5%	0.5%	0.5%	In-line
	National CPI (Jan) – yoy	0.7%	0.7%	0.6%	In-line
	All Industry Activity Index (Nov) – mom	-0.4%	-0.5%	1.2%	Weaker
Australia	Producer Price Index (4Q) – yoy	3.3%	2.8%	2.4%	Weaker
	Consumer Prices (4Q) - yoy	3.0%	3.0%	1.9%	In-line
	RBA Weighted Median (4Q) – yoy	3.4%	3.8%	3.1%	Stronger

INTEREST RATE STRATEGY

Further volatility in rates expected in the week ahead as Fed decision and key US data to dictate direction. The NZ rates market will again be taking its cues from offshore.

Market themes...

- > RBNZ did not disappoint, delivering a no-surprises assessment. But rates rallied strongly on the back of Dr Bollard's speech the next day.
- > Fed surprises with 75bp cut, but fails to stabilise markets. News of rescue plan for bond insurers helped improve sentiment.
- > Market pricing has Fed funds rate bottoming at 2 percent by Q3.

Outlook...

The RBNZ delivered a no-surprises assessment at their January *OCR Review*. The muted market reaction showed that the RBNZ struck the right chord with the market, which then went back to focusing on global developments. However, Dr Bollard's speech the next day, on "*Coping with Shocks – a New Zealand perspective*", was interpreted as dovish and rates rallied strongly on the back of it. We were surprised at the reaction, for the speech did not contain much that was new. But the market appears to have latched on to Dr Bollard's comment that "*as household spending moderates, demand-driven inflation pressure will abate.*" Indeed, the RBNZ's credit card data and Statistics NZ's electronic card transaction data point to a subdued retail sales print for December. However, this is already factored into the RBNZ's projections. Nonetheless, the reaction shows the bias that the market has at present given jitters over the global environment. This makes it more difficult for the RBNZ to try to hold the curve up, without toughening their tone too much.

The NZ rates market will continue to take its cues offshore this week given the lack of any major local data. Flows will be a major driver of rates, and yields could remain under pressure still. We are not calling a new lower trading range for swap yields yet at this stage until things settle down a bit more, which may take some time. We continue to favour paying the 2-year at yields in the 8.30/35 range.

In offshore developments, the US Fed surprised with a 75bp cut. This failed to stabilise the markets, and it was not until news spread of a meeting of Fed officials formulating some kind of rescue plan for bond insurers that sentiment improved greatly. US yields continue to be dictated to by US equity markets. Fed meeting this week (another 50bp cut widely expected) and a heavy US data calendar mean the US will again provide direction. Over in Australia, strong core CPI readings could be the last straw for the RBA, and a rate hike looks odds on in February. Our Australian colleagues are expecting two interest rate hikes by the RBA this year, which may help to hold the NZ curve up.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔	Holding, watching and waiting to see how global developments unfold.
NZ data	↔	Further signs of consumer consolidation, but upcoming labour market data to be strong.
Fed Funds/front end	↓	Surprise 75bp cut with more expected to come.
RBA	↑	February hike seem likely given inflation problem.
US 10 year	↔/↓	Swinging widely and taking its cues off US equities.
NZ swap spreads	↔/↓	We expect swap spreads to continue narrowing led by bond moves.
Flow	↔/↓	Lack of mortgage paying means receiving interests from offshore will dominate.
Technicals	↔/↓	A clearer technical picture will emerge following the Fed decision and release of key US data this week.

Borrowing strategies we favour at present

Given the extremely volatile global environment and movements in the local rates market, we favour purchasing of payer swaptions in the 2 and 5 year. This protects the upside, while allowing participation in the downside at a small cost.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 6-Mar-08	8	8
Thu 24-Apr-08	22	12
Thu 5-Jun-08	28	8
Thu 24-Jul-08	8	-8
Thu 11-Sep-08	-12	-48
Thu 23-Oct-08	-12	-48
Thu 4-Dec-08	-12	-112

Trading themes we favour at present

We continue to favour paying the 2-year swap at yields around 8.35 percent, targeting a move back towards 45/50.

CURRENCY STRATEGY

With stock markets around the globe playing bungy-nomics, the NZD will continue to be pulled along for the ride. All eyes will be firmly focused on the Fed and the wave of US data due this week.

Market themes...

- > NZD remains hostage to overseas developments and equity market gyrations.
- > Volatility, volatility, volatility!
- > Fed and US data this week will be the focus.

Outlook...

The NZD remains caught in the familiar rip of yield and risk sentiment, starting and ending last week trading near US0.77 although experiencing a range of over 350 basis points in between times.

The broad directional picture remains mixed.

- The yield differential remains wide, at close to 550bps between NZ and US 2-year swap rates.
- Equity sentiment continues to have a huge say, and so long as credit markets remain fragile equity markets are likely to remain biased towards moves lower as opposed to higher. The S&P VIX index is up near its highest level in five years.

So all are sundry – ourselves included – are left scratching their heads. For now it looks to be a question of playing the ranges, with the NZD/USD sketching out a 0.74 to 0.7950 pattern.

In our minds, the broader picture continues to be dominated by US versus non-US growth prospects. If the ripple effects from the former start to intensify to the latter, the bias for kiwi turns down. Commodity gauges continue to give mixed messages on the global growth cycle, although the failure of the AUD to recover on strong inflation reads and continued nudges lower in the Baltic Dry Freight index (down 11 percent in the week and 37 since the start of the year) leave us circumspect.

Local data is thin on the ground this week (with only building consents and overseas trade) although fortnightly dairy prices figures could be of interest. Commodity (dairy) prices look to hold the key in re-pricing the RBNZ so we'll be eying Friday's USDA prices closely. Non-fat dry milk futures were off 3.5 percent last week.

Otherwise, the scene will be set internationally. With the US data calendar being heavy (Fed's interest rate decision on Thursday NZDT, US is GDP, durable goods, ISM, consumer confidence and non-farm payrolls data), we look set for another volatile week. It is hard to go against a softer tone biasing the kiwi topside if recessionary fears increase, although the bird may well find itself capped by weaker equity sentiment, and equivalent softness in key European growth gauges.

Similar themes to the NZD continue to plague the AUD at present. Nonetheless, it is hard not to favour NZD/AUD lower given the respective inflation readings. The RBA looks behind the curve. The NZD/AUD is now below the 200 hour and day moving averages both currently around 0.8730/35. We suggest 0.8760 and above to place stop losses. The NZD/USD has support at 0.7640 and we look to this level to trade early in the week. Resistance at 0.7750 capped for last week and is now an important level for topside progress. A break of either levels should provide the trigger for a larger move.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↔	Yield spreads stabilising. Data to give direction.
Commodities	↓	Gold up, milk down.
Partial indicators	↓	Better across the Tasman. Terms of trade shocks bigger there.
Technicals	↓	Top at 0.8730-50.
Sentiment	↓	AUD data is better.
Other	↓	Bollard's comments interpreted dovish, RBA Stevens hawkish.
On balance	↓	AUD simply better.

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.
Yield	↑	Yield differentials at phenomenal levels.
Commodities	↔	Off their highs but still supportive.
Risk aversion	↓	VIX Index high.
Partial indicators	↑	NZ domestic economy is soft, but US is softer.
Technicals	↔	0.7740-0.7750 range, break important.
AUD	↑/↔	Good fundamentals but a play on global cycle.
Sentiment	↔	Mixed messages.
Other	↔	USD disliked, but US weakness broadening = USD up by default.
On balance	↔/↑	US policy response = weaker USD.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
28 Jan	EU	ECB's Liikanen speaks in Helsinki	-	-	21:00
		Euro-Zone M3 (Dec) – yoy	12.2%	12.3%	22:00
29 Jan	US	New Home Sales (Dec) – mom	-0.3%	-0.9%	04:00
	EU	ECB's Tumpel-Gugerell speaks in Brussels	-	-	06:00
		ECB's Hurley speaks in Dublin	-	-	07:00
		Current Account (Nov) – s.a.	1.3B	1.3B	22:00
	JN	Jobless Rate (Dec)	3.9%	3.8%	12:30
		Overall Household Spending (Dec) – yoy	-0.3%	-0.6%	12:30
		Retail Trade (Dec) – yoy	0.1%	1.6%	12:50
	AU	NAB Business Confidence (Dec)	-	6	13:30
		NAB Business Conditions (Dec)	-	15	13:30
30 Jan	US	Durable Goods Orders (Dec)	1.9%	-0.1%	02:30
		Durables Ex Transportation (Dec)	0.0%	-0.8%	02:30
		S&P/CS Composite-20 (Nov) – yoy	-7.1%	-6.1%	03:00
		Consumer Confidence (Jan)	87.0	88.6	04:00
	NZ	Building Consents (Dec) – mom	-	-0.1%	10:45
		Total Household Claims (Dec) – mom	-	0.8%	15:00
		M3 Money Supply (Dec) - yoy	-	7.4%	15:00
	JN	Industrial Production (Dec P) – mom	2.0%	-1.6%	12:50
		Vehicle Production (Dec) – yoy	-	3.8%	17:00
	UK	Net Consumer Credit (Dec)	1.1B	1.1B	22:30
		Net Lending Sec. on Dwellings (Dec)	7.5B	7.8B	22:30
		Mortgage Approvals (Dec)	79k	83k	22:30
31 Jan	US	ADP Employment Change (Jan)	40k	40k	02:15
		GDP Annualised (4Q A)	1.2%	4.9%	02:30
		Personal Consumption (4Q A)	2.7%	2.8%	02:30
		GDP Price Index (4Q A)	2.6%	1.0%	02:30
		Core PCE (4Q A) – qoq	2.5%	2.0%	02:30
		Former Fed Chairman Greenspan speaks at Investment Forum in Moscow	-	-	06:00
		FOMC Interest Rate Decision	3.00%	3.50%	08:15
	NZ	Trade Balance (Dec)	-200m	-646m	10:45
		Imports (Dec)	3,575m	3.95B	10:45
		Exports (Dec)	3,375m	3.30B	10:45
	JN	Nomura/JMMA Manufacturing PMI (Jan)	-	52.3	12:15
		Labour Cash Earnings (Dec) – yoy	-0.2%	0.1%	14:30
		Housing Starts (Dec) – yoy	19.1%	-27.0%	18:00
		Construction Orders (Dec) – yoy	-6.3%	-3.8%	18:00

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Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
Jan 31 cont.	AU	Private Sector Credit (Dec) – mom	1.2%	1.7%	13:30
	UK	Nationwide House Prices (Jan) – mom	-0.4%	-0.5%	20:00
		GfK Consumer Confidence Survey (Jan)	-15	-14	23:30
	GE	ILO Unemployment Rate (Dec)	7.8%	7.9%	20:00
		ECB's Tumpel-Gugerell speaking in Paris	-	-	21:15
		Unemployment Rate (Jan) – s.a.	8.3%	8.4%	21:55
		Unemployment Change (Jan) – 000's	-43k	-78k	21:55
	EU	Euro-Zone CPI Estimate (Jan) – yoy	3.1%	3.1%	23:00
		Business Climate Indicator (Jan)	0.86	0.92	23:00
		Consumer Confidence (Jan)	-10	-9	23:00
		Economic Confidence (Jan)	104.1	104.7	23:00
		Industrial Confidence (Jan)	2	2	23:00
		Services Confidence (Jan)	13	14	23:00
1 Feb	US	Personal Income (Dec)	0.4%	0.4%	02:30
		Personal Spending (Dec)	0.1%	1.1%	02:30
		PCE Deflator (Dec) – yoy	3.5%	3.6%	02:30
		PCE Core (Dec) – mom	0.2%	0.2%	02:30
		Employment Cost Index (4Q)	0.8%	0.8%	02:30
		Chicago Purchasing Manager (Jan)	52.1	56.4	03:45
		Help Wanted Index (Dec)	20	21	04:00
	EC	ECB's Bonello speaks in London	-	-	06:00
	AU	Performance of Manufacturing Index (Jan)	-	57.6	11:30
		RBA Commodity Index SDR (Jan) – yoy	-	1.8%	18:30
	JN	Vehicle Sales (Jan) – yoy	-	-7.1%	18:00
	GE	PMI Manufacturing (Jan)	53.6	53.6	21:55
	EU	PMI Manufacturing (Jan F)	52.6	52.6	22:00
	UK	PMI Manufacturing (Jan)	52.5	52.9	22:30
2 Feb	US	Change in Non-Farm Payrolls (Jan)	65k	18k	02:30
		Unemployment Rate (Jan)	5.0%	5.0%	02:30
		Change in Manufacturing Payrolls (Jan)	-20k	-31k	02:30
		Average Hourly Earnings (Jan) – mom	0.3%	0.4%	02:30
		University of Michigan Confidence (Jan F)	79.0	80.5	04:00
		ISM Manufacturing (Jan)	47.2	47.7	04:00
		ISM Price Paid (Jan)	68.0	68.0	04:00
		Construction Spending (Dec) – mom	-0.5%	0.1%	04:00
	EU	ECB's Stark speaks in Brussels	-	-	22:45

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: Labour market data released next week are the next key reads. Wage growth is likely to remain elevated and the unemployment rate near recent lows. Although they are often thought of as lagging indicators, strong reports will reinforce the support being provided to the economy and emphasise the vigilance still required by the Reserve Bank.

Date	Data/Event	Economic Signal	Comment
Wed 30 Jan (10.45)	Building Consents Issued (Dec)	Easing	Further declines in residential consent issuance are expected. But commercial consent issuance to hold up.
Wed 30 Jan (15.00)	Credit Growth (Dec)	Soft	Given that housing market activity remains subdued, credit growth is likely to remain soft.
Thu 31 Jan (10.45)	Overseas Merchandise Trade (Dec)	Gradually improving	High dairy prices and solid production from the Tui oil field continue to provide strong support to exports and are helping to contribute to an improving trade balance. However, high oil prices – adding to the import bill – will slow this improvement.
Mon 4 Feb (10.45)	External Migration (Dec)	Stabilising	We expect annual net migration to stabilise around its current level of 7,000, although the risks appear skewed to the downside. We'll be closely looking at US inbound tourist figures.
Tue 5 Feb (10.45)	QES and LCI (Dec qtr)	Elevated wage growth	The labour market remains tight and firms continue to report difficulty in finding staff. Wage measures are likely to remain elevated for some time.
Tue 5 Feb (15.00)	ANZ Commodity Price Index (Jan)	-	-
Thu 7 Feb (10.45)	Household Labour Force Survey (Dec qtr)	Still tight	Last quarter showed falling employment and a fall in the unemployment rate. This quarter may see the reverse. Volatility within the survey makes interpretation difficult. Suffice to say, the market will remain tight.
circa 11 Feb	REINZ Housing Report (Jan)	Down	A slight rebound in sales is possible after the big fall in December, but prices to remain under pressure.
Wed 13 Feb (10.45)	Producer Price Index (Dec qtr)	Margin squeeze	Business margins expected to remain under pressure, judging from the QSBO survey. This points to more potential cost-push inflation pressure.
Wed 13 Feb (10.45)	Capital Goods Price Index (Dec qtr)	Mixed on the price front	P&M prices to fall due to higher TWI, but residential and non-residential building prices to remain strong, though showing some signs of easing.
Thu 14 Feb (10.45)	Food Price Index (Jan)	On the up	January is usually a strong month for food prices, and this year will be no different. With world commodity prices still riding high, there is further agri-inflation in the works.
Fri 15 Feb (10.45)	Retail Trade Survey (Dec)	Flat-lining	After a strong surge in November, a pullback can be expected. Credit card and ECT data point to a soft print. A decline cannot be ruled out.
Thu 21 Feb (15.00)	NBNZ <i>Regional Trends</i> (Mar qtr)	-	-
Fri 22 Feb (15.00)	Credit Card Billings (Jan)	Rebound?	Following a weak December, anecdotes suggest January was a better month for retailers. This could see a rebound in credit card billings, though overall spending still slowing.
On Balance		Sub-trend growth	Inflationary pressures persist.

SUMMARY OF KEY ECONOMIC FORECASTS

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
GDP (% qoq)	0.7	1.2	0.8	0.5	0.3	0.3	0.3	0.3	0.5	0.6
GDP (% yoy)	2.0	2.4	3.2	3.3	2.9	1.9	1.4	1.2	1.4	1.7
CPI (% qoq)	-0.2	0.5	1.0	0.5	1.2	0.6	0.8	0.9	0.8	0.5
CPI (% yoy)	2.6	2.5	2.0	1.8	3.2	3.3	3.0	3.4	3.0	2.9
Employment (% qoq)	0.0	1.2	0.6	-0.3	0.5	0.4	0.3	0.2	0.3	0.1
Employment (% yoy)	1.4	1.7	1.6	1.5	2.0	1.2	0.9	1.4	1.2	0.9
Unemployment Rate (% sa)	3.7	3.7	3.6	3.5	3.6	3.7	3.8	3.8	4.0	4.1
Current Account (% GDP)	-8.6	-8.2	-8.1	-8.3	-8.0	-7.6	-7.0	-6.7	-6.8	-6.9
Terms of Trade (% qoq)	2.5	1.5	0.4	3.7	2.7	0.8	0.2	-0.1	-0.1	-0.7
Terms of Trade (% yoy)	3.8	4.5	2.3	8.4	8.5	7.8	7.5	3.6	0.8	-0.7

KEY ECONOMIC INDICATORS

	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Retail Sales (% mom)	0.8	-1.2	1.1	-0.4	0.2	0.3	1.0	-0.6	2.0	..
Retail Sales (% yoy)	7.4	7.4	6.7	4.8	5.7	6.3	4.1	5.5	6.9	..
Credit Card Billings (% mom)	1.0	-1.1	1.0	1.8	0.1	0.5	2.4	-0.6	1.2	0.3
Credit Card Billings (% yoy)	7.2	7.9	5.8	8.9	7.9	8.6	9.4	7.7	9.5	7.6
Car Registrations (% mom)	1.2	-1.9	6.8	-4.6	7.0	1.0	-6.8	5.4	-3.9	-2.9
Car Registrations (% yoy)	-11.0	-4.8	-2.5	-1.5	7.0	10.9	0.1	4.7	2.3	1.4
Building Consents (% mom)	-1.2	0.7	5.2	12.7	-15.9	4.8	-10.1	-4.6	-0.2	..
Building Consents (% yoy)	3.4	9.1	2.8	33.1	-4.1	-1.4	-15.5	-16.0	-4.9	-3.0
REINZ House Price (% yoy)	13.7	14.4	14.8	12.1	10.4	12.9	12.3	8.0	6.7	4.5
Household Lending Growth (% mom)	1.2	1.1	1.1	1.1	0.9	0.9	0.8	0.9	0.8	..
Household Lending Growth (% yoy)	13.3	13.5	13.5	13.5	13.5	13.4	13.1	12.9	12.7	..
Roy Morgan Consumer Confidence	129.3	128.6	122.1	121.0	121.1	122.4	121.3	122.0	121.9	126.6
NBNZ Business Confidence	-12.5	-19.4	-48.3	-37.2	-38.5	-33.8	-26.5	-12.9	-19.6	-24.9
NBNZ Own Activity Outlook	24.1	22.5	7.8	14.8	12.4	16.7	17.2	20.3	15.7	18.2
Trade Balance (\$m)	60	-215	8	-518	-808	-947	-573	-717	-646	..
Trade Balance (\$m annual)	-5776	-6024	-5900	-6226	-6340	-6336	-6283	-5827	-5653	..
ANZ World Commodity Price Index (% mom)	2.0	4.9	2.6	6.3	4.6	1.4	0.4	1.8	0.8	0.0
ANZ World Commodity Price Index (% yoy)	17.1	20.9	21.1	29.8	35.1	36.3	35.7	37.8	35.9	30.9
Net Migration (sa)	630	240	430	620	490	740	680	280	530	..
Net Migration (annual)	12081	11222	10682	10078	8966	8730	8309	7517	6588	..

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)						
	Nov 07	Dec 07	28 Jan 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
NZD/USD	0.763	0.768	0.767	0.760	0.740	0.710	0.680	0.660	0.640	0.630
NZD/AUD	0.851	0.881	0.873	0.835	0.822	0.807	0.791	0.786	0.780	0.788
NZD/EUR	0.520	0.528	0.523	0.510	0.493	0.486	0.479	0.478	0.478	0.485
NZD/JPY	84.8	86.3	81.9	83.6	79.9	75.3	70.7	69.3	69.1	69.3
NZD/GBP	0.368	0.380	0.387	0.386	0.379	0.368	0.358	0.351	0.344	0.342
NZ\$ TWI	70.3	71.6	70.8	69.7	67.8	65.6	63.5	62.5	61.7	61.7
NZ interest rates	Nov 07	Dec 07	28 Jan 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
OCR	8.33	8.40	8.25	8.25	8.25	8.00	7.50	7.00	6.75	6.75
90 day bill	8.74	8.90	8.72	8.70	8.60	8.00	7.50	7.00	7.00	7.00
10 year bond	6.39	6.39	6.32	6.20	6.10	6.00	5.50	5.40	5.60	5.80
International	Nov 07	Dec 07	28 Jan 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
US Fed funds	4.50	4.25	3.50	2.75	2.25	2.00	2.00	2.50	3.25	3.75
US 3-mth	5.13	4.70	3.31	3.40	3.25	3.15	3.25	3.65	4.15	4.50
AU cash	6.75	6.75	6.75	7.00	7.25	7.25	7.25	7.25	7.25	7.25
AU 3-mth	7.25	7.24	7.28	7.30	7.50	7.50	7.50	7.50	7.40	7.40

KEY RATES

	25 Dec	21 Jan	22 Jan	23 Jan	24 Jan	25 Jan
Official Cash Rate	n/a	8.25	8.25	8.25	8.25	8.25
90 day bank bill	n/a	8.74	8.72	8.75	8.73	8.73
NZGB 07/09	n/a	7.21	7.15	7.18	7.20	7.19
NZGB 11/11	n/a	6.97	6.91	6.94	6.97	6.96
NZGB 04/13	n/a	6.89	6.83	6.87	6.90	6.89
NZGB 12/17	n/a	6.26	6.21	6.26	6.29	6.29
2 year swap	n/a	8.40	8.33	8.36	8.39	8.35
5 year swap	n/a	7.95	7.91	7.95	7.97	7.93
RBNZ TWI	n/a	70.3	69.5	70.4	70.6	71.0
NZD/USD	n/a	0.7597	0.7464	0.7599	0.7629	0.7716
NZD/AUD	n/a	0.8665	0.8669	0.8755	0.8744	0.8730
NZD/JPY	n/a	81.12	79.35	80.97	81.10	82.71
NZD/GBP	n/a	0.3891	0.3843	0.3883	0.3907	0.3902
NZD/EUR	n/a	0.5219	0.5168	0.5198	0.5219	0.5227
AUD/USD	n/a	0.8767	0.8610	0.8680	0.8725	0.8838
EUR/USD	n/a	1.4557	1.4442	1.4619	1.4618	1.4762
USD/JPY	n/a	106.78	106.31	106.55	106.31	107.19
GBP/USD	n/a	1.9523	1.9421	1.9571	1.9527	1.9775
Oil	n/a	88.60	88.62	89.64	87.65	89.98
Gold	n/a	866.35	861.50	886.00	891.50	910.25
Electricity (Haywards)	n/a	7.83	10.78	10.02	8.27	7.60
Milk futures (US\$/contract)	n/a	n/a	150	148	146	145
Baltic Dry Freight Index	n/a	6513	6437	6246	5948	5780

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ANZ, Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639
<http://www.anz.com/nz> e-mail ecnmcs@anz.com