SHOULD I STAY OR SHOULD I GO?

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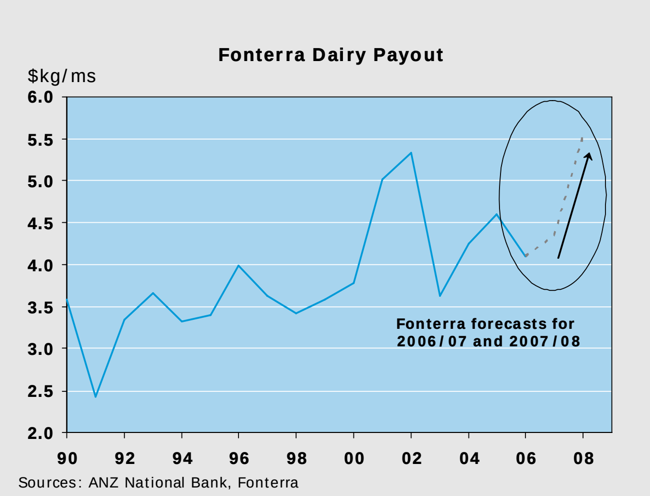
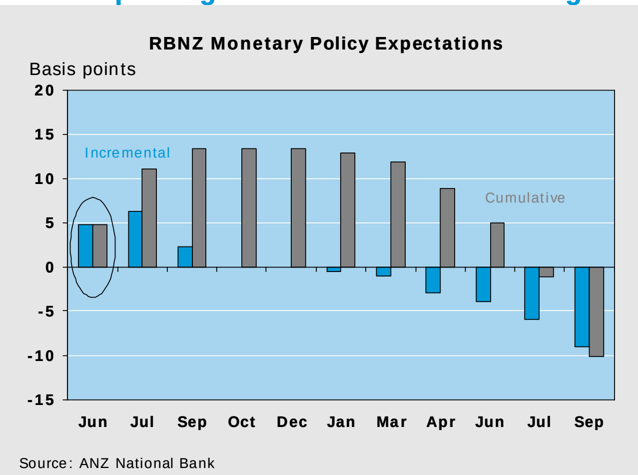
Fonterra lifts its forecast for the 2007/08 payout.



Sources: ANZ National Bank, Fonterra

Market pricing for a June hike looks light.



Source: ANZ National Bank

ECONOMIC OVERVIEW

Leading confidence gauges and anecdotes are urging caution for the Reserve Bank, although two big picture macro drivers – fiscal policy and the dairy payout – are more stimulatory than what the Reserve Bank would have been thinking. Bouquets for the terms of reference to the monetary policy inquiry, which includes productivity growth, potential growth, and how monetary and fiscal policy interact.

What's ahead...

- NZ April Building Consents (Wednesday 1045 NZST). Consents should show a small recovery after the fall in March.
- National Bank May *Business Outlook* (Thursday 1500 NZST)
- National Bank *Rural Report* (Friday)

What's the view

A lack of both local and global data last week saw bond and currency markets relatively subdued. But just because markets were quiet, does not mean the Reserve Bank would have put their feet up. Pressures to the medium-term inflation outlook still remain to the upside and the Reserve Bank will continue to be on a heightened state of alert.

Although the Reserve Bank's own expectations survey showed that inflation expectations were unchanged, they remain elevated. Anything above 2 percent and the Bank will likely feel medium-term inflationary expectations are not well-anchored. The Reserve Bank will take some comfort that the recent resurgence in domestic demand and non-tradable inflation has not seen a rise in expectations. But given that 2-year ahead expectations are at 2.6 percent, this does not give them much headroom if the latest economic momentum does not abate.

The announcement by Fonterra last week of a significant increase in the forecast 2008 payout would have also got the central bankers' hearts racing. Dairy prices have skyrocketed and this increase in payment, if realised, will further lean against the Reserve Bank's efforts to slow the economy. One wonders where the payout could end up if the NZ dollar eases! Moreover, we suspect we will soon start to see some impact on food related inflation at the supermarket.

While leading confidence gauges and anecdotes are pointing to softening activity, two big picture macro drivers for the economy, namely more expansionary fiscal policy and the dairy payout, have not been captured in such gauges, and clearly point to an elongated cycle. Certainly, the talk across some regions following the increase in the payout is pretty positive.

This leaves us very coy about whether this is indeed the end of the interest rate tightening cycle. While we also believe the economy is more vulnerable than people believe, we suspect the Reserve Bank will be unwilling to let the pattern of raising interest rates, a temporary consolidation, and then reflation, continue. Strong March quarter non-tradable ex-housing inflation figures effectively removed the choice of waiting. This time around, the consolidation needs to be sustained, and the bias may be to do more on the interest rate front to ensure this occurs.

We noted with some scepticism a few weeks ago the announcement by the Government of a select committee inquiry into the performance of monetary policy. We were doubtful that the inquiry would provide any reasonable solutions and suspected monetary policy was being labelled a scapegoat for other ills. We believed it would be more appropriate to launch an inquiry into the material decline in productivity growth, which looked ominously structural in nature. Productivity growth within New Zealand's market sector has roughly halved in the last five years, compared with the preceding decade. Monetary policy is easy political fodder when the currency is elevated and the manufacturing and other parts of the export sector are struggling.

However, bouquets to the Government for the terms of reference that were released last week. As well as an investigation into the monetary policy framework, the terms of reference include:

- The interaction of monetary policy with other elements of economic policy, including fiscal policy.

- New Zealand's capacity for non-inflationary growth, and how it can be improved. In particular, and what really grabbed our attention, was that the committee intend to examine how productivity in the economy can be improved, as well as constraints upon it.

Such issues reside at the foundation for improving New Zealand's living standards. The challenge to policy-makers is to get the right economic incentives and policy platform in place that fosters improved productivity performance, thus raising the economy's non-inflationary speed limit. Get the economic environment right, and our children will inherit a rich land.

Recent data...

- **NZ Credit Card Spending (Apr)** fell 1.0 percent, after a 1.0 percent increase in March. The balance outstanding ticked up by 0.8 percent after a 0.1 percent fall in March.
- **RBNZ's Survey of Expectations (June qtr).** 1 and 2-year ahead inflation expectations were unchanged at 2.7 and 2.6 percent respectively.
- **NZ Overseas Merchandise Trade (Apr).** The monthly trade deficit was $212 million, pulled higher by a surge in oil imports.

RURAL UPDATE

The dairy industry has escaped from jail and is on a roll but the sheep industry struggles.

Improved forecasts for the dairy industry have quickly boosted farmer confidence. By way of contrast, the sheep industry struggles with low prices for lamb and wool. There is also added pressure from an extended dry period on much of the East coast on both islands and in Central Otago.

Significant structural change in the agricultural sector is likely if the perception that the current imbalance in the profitability between sheep and dairy farming will persist into the future.

High international dairy prices, especially since December 2006, have underpinned a further rise in the forecast payout for the 2007/08 season ending May. Fonterra now forecast a diary payout of $5.53/kilogram of milk solids, up and more specific from ‘over five dollars’ announced in March. The announcement comes after the notice earlier in the month of a forecasted rise in the 2006/07 dairy payout from $4.15 to $4.35/kilogram of milk solids. Milk powders have led the charge in price increases but price rises have become more broader based over the past two months to include butter, cheese, casein and whey powder.

- **Realisation of both forecasts will directly add around a further $1.6 billion into the economy between June 2007 and August 2008**. A significant impetus, of approximately 1.0 percent of GDP, to an economy that continues to place pressure on resources. The value added component is less than this although it is still a significant positive impetus to the economic cycle.

- **We must remember that the net impetus to the economy is smaller as it comes through the terms of trade as opposed to purely commodity prices.** Yes milk powder prices have skyrocketed, but oil prices (which New Zealand is a net-importer of) have also increased and will offset some of the potential benefits. Petrol prices at the pump have moved up. Fertilizer is also on the increase, as are interest rates as fixed rate loans mature and are renewed. By our calculations, there will be a net growth stimulus of around 0.6 to 0.7 percent of GDP.

  This is material, and particularly coming on the heels of a more expansionary fiscal stance flagged in the *Budget*. It will lean against the Reserve Bank's desire to see moderation.

- **Admittedly, a lot depends on how dairy farmers respond to surging prices.** Will it boost confidence to spend on or off farm? Will the opportunity be taken to reduce debt or will there be another surge in land sales as farmers look to further expand their business? Most likely it would be a combination of all three. Interest in dairy conversions has escalated. Immediate capital gains from conversion are likely to be reduced given that past strong commodity prices were capitalised into land prices and land prices continued to rise during a period of low profitability.

- **The risk to the payout looks skewed to the upside.** Fonterra have typically been conservative in the past, and if the Reserve Bank gets it wish and sees the housing market slow, the NZD will undoubtedly come under pressure. A $6 payout is not out of the question.

- **A key issue for Fonterra and the sustainability of international dairy prices going forward is how consumers respond.** Certainly the current supply-demand balance backdrop looks favourable. But equivalently, we'd expect some sort of demand response if the full extent of the recent surge in dairy related commodity prices is reflected in prices at the supermarket around the globe.

- **The increase in payout is well timed.** The cash flow of many dairy farmers has been tight over the past two years with near static incomes and rising costs.

- **However, many sheep farmers are likely to have a second consecutive annual cash flow loss for the year ended June 2007.** The unusually large and unexpected fall in the lamb schedule post Christmas dented many cash flows. Especially the breeders who do not have the benefit of adjusting buy and sell margins or the scope to carry lambs further into the autumn because of the dry weather. Fertilizer applications have been reduced. Other discretionary farm items have also been cut back with a flow on effect to servicing towns. Average mid-season returns for prime lamb are estimated at $56/head, little changed from the 2005/06 estimate of $55 and well down from the peak of $71 obtained in 2001/02. Farmers with a higher proportion of cattle are not quite so badly effected but nevertheless, cash flows are under pressure.

- **Compounding the problem is an extended drought on much of the East coast of both islands, particularly north of Christchurch and in Central Otago.** Soil moisture levels were commonly lower than usual in the spring and deficits showed up early. The usual summer dry has extended further and further into the autumn. It is unusual to have droughts extend into May. Grass in these districts is in short supply with little cattle feed. Stock levels at 20 to 30 percent lower than usual are common. Rain at this stage will be most welcome but it is also likely to drop soil temperatures below the threshold for pasture growth. Stockmanship will be tested this winter and effected farmers will be looking for an early spring.

- **The 12 month outlook for sheep meat and wool is only mediocre relative to dairy.** The value of the NZD will be more important than usual for sheep farmers in the next twelve months but so will the signals that meat companies send producers.

  Anecdotal evidence is that a reduction of more than 200,000 ewes is taking place in Otago/Southland as sheep farms convert to dairy or become dairy support farms. That is quite a dent in the future lamb supply. The ewe slaughter numbers are also up, supporting the view that the breeding flock is likely to shrink between 2006 and 2007. That will add pressure to meat companies who have struggled with excess processing capacity for several years but have to build new plants in attempts to gain processing efficiencies.

  There is a significant area of New Zealand that could support dairy cows that is currently running sheep. Dim prospects for the sheep industry will hasten change in land use. The costs of conversion are significant. They are estimated at $3m plus for improvements, livestock and shares for a 500 cow dairy farm. The economics of conversion of course depend on a longer term view of relative profitability over the next one or two years. The availability of water and environmental issues may slow the rate of conversions in some districts.

- **The dry weather has been a dream run for the arable, apple and kiwifruit harvests.** Quality has been good, as are yields. Indicative opening prices of new season New Zealand fruit in Europe have been similar in euros but in a range of up to $4 less in NZD terms.

INTEREST RATE STRATEGY

Lack of liquidity means the IRS market will be dictated by flows this week. Expect tight ranges ahead of the National Bank *Business Outlook* release.

Market themes…

- Receiving interest dries up causing a lack of liquidity in the IRS market. NZGB bond tender was weak which saw the 17's sell off.
- Mortgage flows dictating direction and pushing yields higher.
- Offshore moves to dictate direction ahead of the National Bank *Business Outlook*. US payrolls data at the end of the week will be the key focus offshore.

Outlook…

The lack of receiving interest from last week is expected to continue for most of this week. With the only market moving local data this week being the National Bank *Business Outlook*, due on Thursday 31 May, and the US and UK markets closed for holiday today, the IRS market is set for a very quiet period in the early part of the week. Expect the market to remain wary and trade within tight ranges ahead of the National Bank *Business Outlook* release. Liquidity will again be an issue, as participants sit on the sidelines ahead of next week's RBNZ OCR decision.

The IRS market will be mainly dictated by flows for most of the week with mortgage paying setting the tone, though the IRS curve seems to have found a level for the time being. The bias for now remains towards the payside. If the current strong issuance which we have been seeing recently continues, there could be good selling of bonds which will contract EFPs. But with mortgage books shedding risk in thin trade, spreads are expected to widen out slightly.

The lack of local data for most of the week also means that global moves will dictate direction. Stronger than expected US data last week saw yields move higher and markets pushing back pricing for rate cuts to early next year. The US bond market may finally be buying into the Fed rhetoric that easings are still some way off so long as inflation remains elevated. US non-farm payrolls data due at the end of this week will be the key focus. A strong print will see further upward pressure on US yields, with some flow-through expected into NZ.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔/↑	The RBNZ is silent on its next move, but the risk profile is pointed firmly up.
NZ data	-	National Bank *Business Outlook* the key data to watch this week.
Fed Funds/front end	↔	Stronger than expected US data point to Fed on hold for now.
RBA	↔/↑	Risk profile continues to point towards another hike from the RBA, and sooner rather than later.
US 10 year	↔/↑	Market pushing back expectations of rate cuts to early next year.
NZ swap spreads	↔/↑	Expected to widen out slightly over the week as mortgage books shed risk in thin trade.
Flow	↔/↑	Payside pressure in front end bills and swaps with only 5bps priced in for June. We view the risk as greater than what is priced in.
Technicals	↔	The technical picture is expected to become clearer after next weeks central banks meetings

Borrowing strategies we favour at present

The risk profile for interest rates remains to the upside. We believe the market is currently underpricing the risk of a June hike. Fixing in the 2 and 3 year part of the curve represents good insurance over the short-term and allows borrowers to participate in restructuring opportunities if we were to see a dip in yields in the medium term.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 7-Jun-07	24	19
Thu 26-Jul-07	42	44
Thu 13-Sep-07	50	54
Thu 25-Oct-07	50	54
Thu 6-Dec-07	46	54
Thu 24-Jan-08	42	52
Thu 6-Mar-08	34	48

Trading themes we favour at present

Our trading theme remains unchanged. We continue to expect the curve to invert further, therefore still favour being short the 1-2 year vs receiving the belly of the swaps curve.

SHOULD I STAY OR SHOULD I GO?

The risk of a June hike remains significant in our view, although such an outcome is not our central view.

Our core economic view at the moment is for the OCR to remain on hold for the rest of this year and most of next year. The tightening in financial conditions over recent months, courtesy of the two OCR increases, higher mortgage lending rates and a higher NZD, is yet to exert its full impact. There is a strong case for pausing, which we concur with. That case is built around:

- The aggressive tightening in financial conditions, including the currency, which has already been delivered.
- Early anecdotes that the economy has indeed started to turn (eg easing in consumer confidence and reports of job losses around the country).
- Vulnerabilities within the economy, and the potential for it to "tip".

The market is currently ascribing a 25 percent probability to a hike in June. While we also remain in the no-change camp, this materially understates the risk profile in our view. A strong case can also be presented for moving again in June.

- **The inflation picture has reduced the Reserve Bank's ability to watch and wait.** The reacceleration in non-tradable inflation in Q1 was disconcerting enough by itself. But non-tradable ex-housing inflation also picked up. This is a slow-burn type inflation that takes time to change and points to a more sticky inflationary environment. In order to bring inflation down, in such an environment, the cyclical or housing component will need to be weaker, and hence the economy softer.
- **There are some major stimuli pending.** Increased dairy payout and a more stimulatory fiscal policy forecast for 2007/08 compared to six months ago will provide more support for domestic demand than the RBNZ had factored in at their March *MPS*. In their April *OCR Review*, the RBNZ noted that "*demand is being fuelled by a buoyant housing market, increases in government expenditure, a rising terms of trade, ongoing net migration, and a robust labour market.*" Since then, only net migration has been coming in below the RBNZ's expectations, with the rest surprising on the upside. This suggests that the RBNZ needs the other parts of the economy to adjust more in order to offset the stronger domestic demand.
- **The RBNZ cannot afford to let the economy continue with the recent pattern of consolidation then rebound.** The current tightening cycle, which began in early 2004, has shown that stop-starts have not been effective. This time around, the RBNZ needs the desired slowdown in economic activity to be definitive and sustained. While anecdote may suggest the economy is turning (which we believe is the case), the bias will nonetheless be to do more to engineer this.
- **There is value in the surprise factor.** Remember the media headlines post previous hikes? "*Who cares?*" fronted the NZ Herald. One of the reasons for this is that fixed lending rates do not tend to move when the OCR increases if financial markets have factored it in beforehand. The BoE's hike in January this year is an example of how a surprise move can be used effectively.
- **The NZD is looking suspect,** with support waning due to rising global interest rates and a reassessment of US economic prospects. Ironically, the Reserve Bank needs a stronger currency to keep headline inflation contained. A weaker currency at a time non-tradable inflation is running hot will push headline inflation through the top of the target band. The RBNZ's concerns about the level of the NZD are well known. But with the USD firming there is every possibility that the NZD could head towards the USD0.71 to USD0.72 range over the next week. It may be an opportune time for the RBNZ to put one more hike in. Of course the NZD will likely bounce, but with the end-game being slower growth, such a bounce will be short-lived.

We concede that the economy is at a vulnerable stage in the economic cycle, and there is a potential for it to turn aggressively. The strongest case remains for taking a cautious wait-and-see approach with the tighter financial conditions expected to act as a further drag on growth over the second half of this year,

But as we note above, the lack of inflation headroom and upside risks to domestic demand should not be discounted. In the past, the RBNZ has sought to avoid unnecessary instability in output, interest rates and the exchange rate when determining monetary policy. This resulted in a more cautious approach by the RBNZ. But the RBNZ may be having a rethink on this approach. In its March *Monetary Policy Statement*, the RBNZ noted that "*the need to avoid volatility does not necessarily favour a wait-and-see policy approach.*"

The upshot

The market is saying there is a very low probability of a hike in June, preferring to spread the risk over July and September. To us, the risk is centred solely on June.

CURRENCY STRATEGY

Bias for the NZD remains slightly down over the week, although our belief that the market is under-pricing the risk of a June hike from the RBNZ has us looking for dips to be supported.

Market themes…

- Kiwi continues to trade heavily. Local attention will be on NBNZ *Business Outlook* data due later in the week.
- Growing belief that Fed will not cut rates this year.

Outlook…

Last week was characterised by a lack of any significant overall movement in the NZ dollar, despite some fairly wide intra-day trading ranges. The local market lacked any data to provide direction, with Reserve Bank Survey of Expectations showing no change in inflation expectations, and failing to provide a smoking gun for interest rates.

The lack of local data left market participants looking offshore for direction, and this was not really forthcoming. The BoE's MPC minutes were more hawkish than expected, with some discussion around the possibility of raising interest rates 50 basis points. Otherwise, data calendars were thin. There was a growing belief that the Fed would not cut rates this year, lending some support to the US dollar, and ensuring that the NZ dollar struggled to lift itself off support. Concerns voiced about the "bubble" in the Chinese equity market, and falling hard commodity prices, particularly copper have also weighed on Australasian currencies.

The week ahead has the potential to show a similar apathy for much of the week, although there are several releases that could possibly be show stoppers. Offshore attention will be firmly on the release of the FOMC minutes from earlier this month (and any clues about the Fed's thinking on future interest rate movements), and on Friday night's non-farm payrolls data.

NZ building consents data (Wednesday), and the release of the National Bank *Business Outlook* (Thursday), are the main releases in New Zealand. The *Business Outlook* is the last major piece of data ahead of the Reserve Bank's 7 June *MPS*.

Technically, the NZ dollar continues to look tired, and while key support at 0.7236 is holding, expect this to break. There are significant NZD strikes around 0.7225 that have held things at this point. But once the downside goes there could well be a clean out of a few longs. Support levels are at 0.7196 (which we favour to hold) and much lower at 0.7077. Our belief that the market is under-pricing the risk of a June hike has us looking for dips to be supported. The NZD/AUD remains trapped in a relatively tight range, but Australian data this week (retail sales on Wednesday, international trade on Thursday) might deliver a brief dip into 0.87 territory. Expect plenty of exporters to get in around these levels. Topside will again see the cross struggle above 0.89.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↑	Advantage NZ – 7.75 v 6.25.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Aussie ahead of us in the terms of trade cycle.
Technicals	↓	Range trade 0.88-0.89, expect downside to break.
Sentiment	↓	Talk of stock market bubbles more negative for NZD.
Other	↔	Yield still attractive for both Uridashi and eurokiwi. But maturity profile steepening.
On balance	↓	**Data important this week. Expect AUD data to be better.**

NZD vs USD: monthly directional gauges

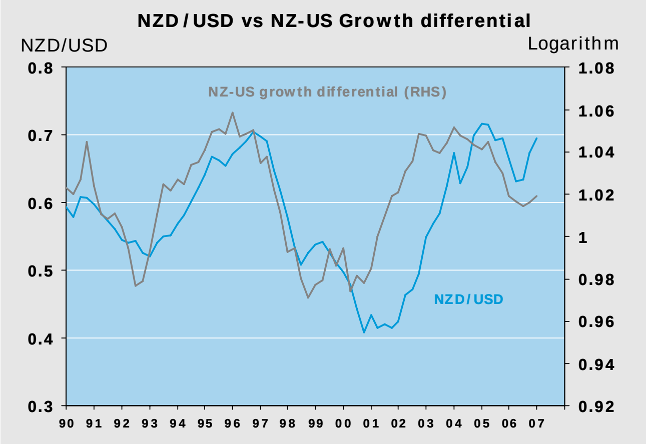
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.62-0.65 given a structural shift in commodity prices.
Fair value – short-term	↔	Growth slowing but terms of trade continue to improve.
Yield	↔	Both RBNZ and Fed on hold for rest of this year.
Commodities	↔	Higher commodity prices remain supportive but largely reflected already.
Risk aversion	↔	Stock markets watched carefully – May normally annual peak of US market.
Partial indicators	↔	Asia on fire. We are part of Asia.
Technicals	↔	Range trade, buy 0.7200, sell 0.7350.
AUD	↑	Aussie data can surprise to top side.
Sentiment	↓	Bearish as yield differentials narrow.
Other	↔	Need weak data, but more confident about calling 0.75 a top.
On balance	↔	**Data key – particularly US payrolls. But don't discount the RBNZ.**

CURRENCY MACRO-MOMENTUM GAUGE

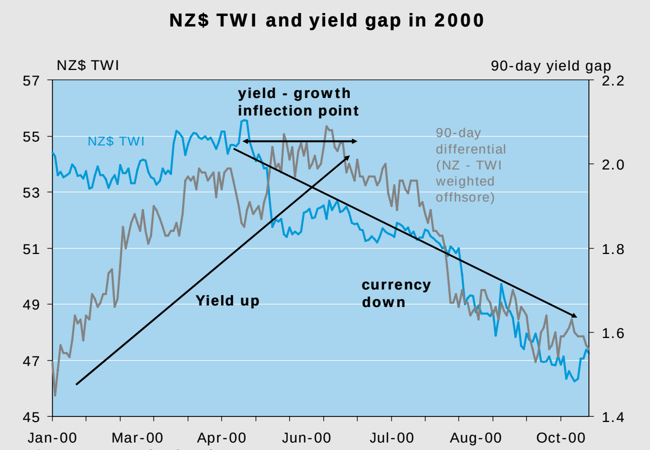
The NZD has followed the upward movement in our macro-momentum gauge over the past six months. April shows a flattening in the gauge. The NZD looks to be at a growth-yield inflection point.

Which matters more for the NZD, growth or yield? Of course the two cannot be divorced. Slowing growth is typically associated with falling interest rates, or at a minimum, the 90-day to 2-year part of the yield curve inverting.

Yet it is clear from the aggressive movement in the NZD in the early part of 2006 in response to weak economic data, the way the USD has behaved of late, the yield growth inflection point the NZD hit in 2000, and the relationship between the NZD/USD and relative growth, that growth holds the key. The RBNZ hiked interest rates 50 basis points in the first half of 2004, and the NZD still fell from 0.70 to 0.60 against the USD. The NZ 90-day and 10-year interest rate vis-à-vis a TWI based equivalent is now 40 basis points below early 2006.

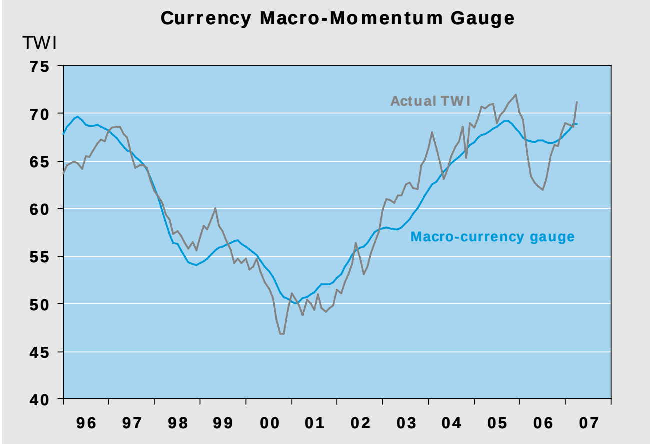


Sources: ANZ National Bank, Reuters



Sources: ANZ National Bank, Reuters

We monitor a currency macro momentum gauge to illustrate the importance growth plays in the value of the NZD. This gauge is in effect an extension of our leading and composite growth indicators. We use timely indicators that we know the currency market tends to react to. These include monthly trend information from confidence surveys, the housing market, commodity prices, and imports. We use two indicators for each – one being directional (positive or negative), and the second the relative magnitude of either weakness or strength. The index gives a weighted combination of the overall tenor of the data. The results are then overlaid on the currency using cumulative movements. We use cumulative movements because ultimately it is the trend in the data over time such as sustained weakness or strength that is influential. Just as sub-par performance sees a share price fall, sub-par (trend) performance over time should see a currency decline. A simple regression links the index more explicitly to the actual TWI.



Sources: ANZ National Bank, Reuters

Does our gauge track the NZD? The answer is an overwhelming yes. Obviously divergences can and do occur. Our index includes no offshore factors. Yet it is striking how closely the two are still correlated based solely on macro-momentum for the NZ economy.

So what do we take from our gauge, which is, of course, a tool to complement other indicators.

- Our indicator has been on a rising trend since October last year.
- There does not appear to be a fundamental mis-match between the level of our gauge and the currency to suggest a snapback is imminent.
- The indicator flattened in April.

Market attention will now turn to gauges for May, and specifically how the impact of tighter financial conditions is likely to impact on economic prospects. Ultimately it is growth and macro-momentum that holds the key to trends in the NZD.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
28 May	JN	BoJ Governor Fukui to Speak at Economic Forum	-	-	13:00
29 May	JN	Jobless Rate (Apr)	4.0%	4.0%	11:30
		Overall Household Spending (Apr) – yoy	0.2%	0.1%	11:30
		Large Retailers' Sales (Apr)	-0.8%	-1.1%	11:50
		Retail Trade (Apr) – mom	0.3%	-1.3%	11:50
		Small Business Confidence (May)	-	49.6	17:00
	AU	HIA Home Sales (Apr) – mom	-	0.0%	-
	EU	Euro-Zone Current Account (Mar)	-	-5.3B	20:00
30 May	US	S&P/CS Composite-20 HPI (Mar) – yoy	-	-1.0%	01:00
		S&P/CS Composite-20 HPI (1Q)	-	0.4%	01:00
		Consumer Confidence (May)	105.0	104.0	02:00
	NZ	**Building Permits (Apr) – mom**	**-**	**-2.9%**	**10:45**
		Money Supply M3 (Apr) – yoy	**-**	**12.8%**	**15:00**
	JN	Industrial Production (Apr P) – mom	0.5%	-0.3%	11:50
		BoJ to Release Minutes of Fukui Speech	-	-	12:20
	AU	Retail Sales (Apr) – mom	0.5%	1.1%	13:30
		Construction Work Done (1Q)	1.2%	4.3%	13:30
	GE	Bloomberg Germany Retail PMI (May)	-	55.6	20:00
	EU	Euro-Zone M3 (Apr) – 3 mth avg.	10.5%	10.3%	20:00
		Bloomberg Germany Retail PMI (May)	-	54.6	20:00
31 May	US	ADP Employment Change (May)	113k	64k	00:15
		Minutes of May 9 FOMC Meeting	-	-	06:00
	EU	ECB's Liikanen Speaks in Helsinki	-	-	02:00
	NZ	**Tax Receipts, Revenues (Apr)**	**-**	**-**	**09:00**
		NBNZ Business Confidence (May)	**-**	**-19.4**	**15:00**
	JN	Labour Cash Earnings (Apr) – yoy	0.1%	-0.1%	13:30
		Overtime Earnings (Apr) – yoy	-	0.2%	13:30
		BoJ Board Member Nishirmura to Attend Business Conference	-	-	17:00
		Housing Starts (Apr) – yoy	-4.3%	5.5%	17:00
		Construction Orders (Apr) – yoy	1.8%	-1.6%	17:00
	AU	Private Sector Credit (Apr) – mom	-	1.2%	13:30
		Trade Balance (Apr)	-800m	-1,622m	13:30
		Exports (Apr)	-	17,839m	13:30
		Imports (Apr)	-	19,461m	13:30
		Private Capital Expenditure (1Q)	4.0%	-0.2%	13:30
	GE	Unemployment Rate (May)	9.1%	9.2%	19:55
	UK	GfK Consumer Confidence Survey (May)		-6	11:01

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
31 May cont.		M4 Money Supply (Apr F) – yoy	-	13.3%	20:30
		Net Consumer Credit (Apr)	0.9B	0.9B	20:30
		Mortgage Approvals (Apr)	110k	111k	20:30
	EU	Euro-Zone Industrial Confidence (May)	7	7	21:00
		Euro-Zone Economic Confidence (May)	111.0	111.0	21:00
		Euro-Zone Services Confidence (May)	23	22	21:00
1 Jun	US	GDP Annualised (1Q P)	0.8%	1.3%	00:30
		Personal Consumption (1Q P)	4.1%	3.8%	00:30
		GDP Price Index (1Q P)	4.0%	4.0%	00:30
		Core PCE (1Q P) – qoq	2.2%	2.2%	00:30
		Chicago Purchasing Manager (May)	54.0	52.9	01:45
		Construction Spending (Apr) – mom	0.0%	0.2%	02:00
		House Price Index (1Q) – qoq	0.5%	1.1%	02:00
		Fed's Kroszner Speaks on US Economic Outlook in Greece	-	-	20:30
	EU	ECB's Wellink, Weber, Papademos Speak in Athens	-	-	-
		EU's Almunia, ECB's Gonzalez-Paramo Speak in Brussels	-	-	-
		ECB's Trichet Speaks in Ankara	-	-	19:30
		PMI Manufacturing (Survey) (May)	55.5	55.4	20:00
		Euro-Zone GDP (1Q P) – qoq	0.6%	0.6%	21:00
		Unemployment Rate (Apr)	7.2%	7.2%	21:00
		ECB's Bini Smaghi Holds Speech in Trento	-	-	22:00
	AU	RBA Commodity Price Index SDR (May) – yoy	-	8.4%	18:30
	GE	PMI Manufacturing (Survey) (May)	57.2	57.0	20:00
	UK	PMI Manufacturing (Survey) (May)	53.7	53.9	20:30
2 June	US	Personal Income (Apr)	0.3%	0.7%	00:30
		Personal Spending (Apr)	0.4%	0.3%	00:30
		PCE Core Deflator (Apr) – mom	0.2%	0.0%	00:30
		Change in Non-Farm Payrolls (May)	135k	88k	00:30
		Unemployment Rate (May)	4.5%	4.5%	00:30
		Change in Manufacturing Payrolls (May)	-15k	-19k	00:30
		Average Hourly Earnings (May) – mom	0.3%	0.2%	00:30
		Average Weekly Hours (May)	33.8	33.8	00:30
		Pending Home Sales (Apr) – mom	0.5%	-4.9%	02:00
		ISM Manufacturing (May)	54.0	54.7	02:00
		ISM Prices Paid (May)	73.0	73.0	02:00
		University of Michigan Confidence (May F)	88.0	88.7	02:00
		Total Vehicle Sales (May)	16.4m	16.4m	-
		Domestic Vehicle Sales (May)	12.5m	12.6m	-

Key: AU: Australia, CA: Canada, EU: European Union, GE: Germany, JP: Japan, NZ: New Zealand, UK: United Kingdom, US: United States.

Source: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All $ values in local currency. Na= not available. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over next four weeks: The final piece of key information prior to the June *Monetary Policy Statement*, the National Bank *Business Outlook*, is due this week. It is key as it will provide the first forward looking indication on how the economy is faring following the RBNZ's two OCR hikes, and increases in fixed mortgage rates.

Date	Data/Event	Economic Signal	Comment
Wed 30 May (10.45)	Building Consents Issued (Apr)	Rebound	A technical bounce is expected after some recent weak outturns. However, the number of consents will generally remain soft.
Wed 30 May (15.00)	Credit Growth (Apr)	Still strong	Credit growth is likely to remain strong, although some impact of recent interest rate increases is likely to be seen.
Thu 31 May (15:00)	National Bank *Business Outlook* (May)	-	-
Fri 1 Jun (15.00)	National Bank *Rural Report*	-	-
Tue 5 Jun (10.45)	Wholesale Trade Survey (Q1)	Strong	This survey should record a strong increase in line with the increase in retail sales.
Thu 7 Jun (10.45)	RBNZ *Monetary Policy Statement*	On hold	The April statement did not reveal any clues about the RBNZ's future policy intentions. We believe the current tightening cycle is over but the market is nonetheless under-pricing the probability of a hike in June. The Reserve Bank needs to ensure the pending slow-down is going to be sustained as opposed to a temporary consolidation like we saw in early 2006. We suspect the bias may be to deliver one more hike to engineer this despite financial conditions already tightening considerably.
Fri 8 Jun (10.45)	Value of Building Work Put in Place (Q1)	Elevated	Subdued residential investment is expected to be offset by stronger non-residential investment.
Mon 11 Jun (10.45)	Overseas Trade Indexes (Q1)	Strong terms of trade	Strong commodity prices and lower NZD oil prices see the terms of trade increase strongly in the March quarter.
Thu 14 Jun (10.45)	Retail Trade Survey (Apr)	Technical pull-back	After two extraordinarily strong monthly increases, we expect a sizeable pull-back in retail spending in April.
Fri 15 Jun (10.45)	Economic Survey of Manufacturing (Q1)	Recovery	A recovery in the Business NZ PMI suggests manufacturing production increased in the quarter.
circa 15 Jun	REINZ Housing Report (May)	Supply constrained?	Possible continued easing in monthly house sales. Although a lack of supply will place further upward pressure on prices.
Wed 20 Jun (10.45)	External Migration (May)	Easing	PLT departures have been trending upwards and resulting in a fall in the annual net migration inflow. This is likely to continue.
Fri 22 Jun (15.00)	Credit Card Billings (May)	Early signs of stress?	Spending is likely to be maintained, but the outstanding balances are likely to have ticked up as consumers' disposable incomes are reduced by higher mortgage rates.
On Balance		**Mixed**	**Inflection point?**

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SUMMARY OF KEY MARKET FORECASTS

	Actual		Current	Forecast (end month)						
NZ FX rates	Mar 07	Apr 07	28 May 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
NZD/USD	0.699	0.734	0.725	0.730	0.660	0.640	0.630	0.610	0.590	0.570
NZD/AUD	0.882	0.888	0.886	0.880	0.815	0.790	0.788	0.772	0.776	0.770
NZD/EUR	0.528	0.544	0.539	0.529	0.478	0.471	0.474	0.469	0.465	0.456
NZD/JPY	82.0	87.3	88.3	87.6	77.9	74.2	72.5	69.5	66.1	62.7
NZD/GBP	0.359	0.369	0.366	0.367	0.335	0.328	0.326	0.319	0.312	0.306
NZ$ TWI	68.7	71.3	70.9	70.6	63.9	62.1	61.6	60.1	58.7	57.1
NZ interest rates	Mar 07	Apr 07	28 May 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
OCR	7.56	7.67	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.25
90 day bill	7.88	7.98	8.10	8.10	7.90	7.90	7.90	7.90	7.90	7.20
10 year bond	5.89	6.08	6.32	6.20	6.30	6.30	6.40	6.10	5.90	6.00
International	Mar 07	Apr 07	28 May 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
US Fed funds	5.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75	5.00	5.25
US 3-mth	5.35	5.36	5.36	5.40	5.00	4.60	4.75	4.90	5.25	5.40
AU cash	6.25	6.25	6.25	6.25	6.25	6.50	6.50	6.50	6.50	6.50
AU 3-mth	6.52	6.38	6.36	6.40	6.40	6.70	6.70	6.70	6.70	6.80

KEY RATES

	26 Apr	21 May	22 May	23 May	24 May	25 May
Official Cash Rate	7.75	7.75	7.75	7.75	7.75	7.75
30 day bank bill	7.99	7.99	7.99	7.99	8.01	8.00
90 day bank bill	8.07	8.10	8.09	8.09	8.10	8.10
NZGB 07/09	7.16	7.13	7.13	7.13	7.17	7.15
NZGB 11/11	6.80	6.79	6.80	6.81	6.85	6.84
NZGB 04/13	6.49	6.52	6.52	6.54	6.59	6.57
NZGB 12/17	6.13	6.20	6.20	6.24	6.30	6.28
1 year swap	8.19	8.21	8.21	8.22	8.22	8.22
2 year swap	8.05	8.05	8.06	8.08	8.09	8.08
5 year swap	7.76	7.70	7.71	7.73	7.75	7.73
RBNZ TWI	72.2	71.2	71.1	70.9	71.1	70.9
NZD/USD	0.7478	0.7308	0.7280	0.7261	0.7285	0.7255
NZD/AUD	0.8969	0.8872	0.8873	0.8845	0.8852	0.8855
NZD/JPY	88.72	88.62	88.44	88.37	88.56	87.88
NZD/GBP	0.3732	0.3701	0.3694	0.3677	0.3667	0.3655
NZD/EUR	0.5479	0.5407	0.5410	0.5397	0.5415	0.5407
AUD/USD	0.8338	0.8237	0.8205	0.8209	0.8230	0.8193
EUR/USD	1.3649	1.3516	1.3457	1.3455	1.3454	1.3418
USD/JPY	118.64	121.26	121.48	121.71	121.57	121.13
GBP/USD	2.0040	1.9744	1.9709	1.9746	1.9864	1.9850
Oil	65.33	64.93	66.25	64.91	65.10	63.62
Gold	685.95	662.75	662.05	659.95	662.15	654.70
Electricity Price Index	6.74	7.72	7.47	7.39	7.21	7.13

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