

# NEW ZEALAND ECONOMICS MARKET FOCUS

2 May 2011

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## DEMAND-DRIVEN SUPPLY

### ECONOMIC OVERVIEW

Last week the RBNZ stuck to their March MPS script, allowing the insurance cut time to work. There were a few subtle shifts in the tone of the assessment to provide them with greater flexibility. But the RBNZ seems willing to take a patient approach. Given our more upbeat assessment for the economic outlook and concerns we have over the inflation outlook, we still see a December 2011 start to the tightening cycle. However, policy normalisation will be gradual. As the recovery in business confidence showed and the RBNZ alluded to, interest rate sensitive parts of the economy are picking up. A critical ingredient for the recovery to really take hold will be labour market stabilisation, but this week's figures may overstate the degree of improvement, further complicating analysis. Export commodity price data should remain upbeat, but the mix of monetary conditions may scupper future rebalancing of the economy.

### 2011Q1 LABOUR MARKET PREVIEW

We expect the HLFS measure for employment growth to post a solid quarterly increase and the unemployment rate to move lower. Statistics New Zealand was unable to fully incorporate the impact of the Christchurch earthquake in the Q1 survey. Hence, the risk profile is for stronger quarterly readings which would overstate the true picture. Stepping back, our assessment is that the labour market is improving, slowly. Wage inflation is expected to remain moderate and will not be of immediate concern to the RBNZ.

### WHAT'S REALLY HAPPENING WITH BOND TENDER ISSUANCE?

The NZ Debt Management Office issued \$2.6bn of bonds in April, taking issuance for the fiscal year to date to \$16.5bn. Fear of increased bond issuance has been one of the key factors behind NZGS bond underperformance relative to swap over the past year. However, strong demand over the last month has swamped supply. Indeed, although the DMO did not issue quite as many bonds as it did in March, total bids over April reached a record \$9.5bn.

### INTEREST RATE STRATEGY

Dovish comments last week from both the US Federal Reserve and the RBNZ caught the markets mildly unaware, and have seen interest rates fall. Although we believe inflation risks remain, the debate around the timing of the next move from both central banks has been parked for now. This should keep a lid on interest rates for a few more months. However, the tone is set to be a little more upbeat this week, with the RBA likely to be on guard tomorrow, and the ECB highlighting its hawkish position. Closer to home, NZGS bonds remain in hot demand.

### CURRENCY STRATEGY

The NZD remains sought after, though it is starting to run into a bit of resistance to the topside. But with the USD weakness theme still prevalent, the risk of a more hawkish RBA tomorrow, and chances of an upside surprise to NZ's Q1 employment report on Thursday, further gains in the NZD this week are on the cards. We are still on the lookout for the inevitable correction, but this could be from higher levels than here.

# ECONOMIC OVERVIEW

## SUMMARY

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## NEXT WEEK'S EVENTS

- **SNZ Labour Cost Index- 2011Q1** (Tuesday, May 3, 10:45am). Private sector wage rates are expected to rise by 0.6 percent in the March quarter (2.2 percent y/y). See our labour market preview on page 6.
- **SNZ Quarterly Employment Survey – 2011Q1** (Tuesday, May 3, 10:45am). Average private sector hourly earnings are expected to rise by 0.5 percent (2.7 percent y/y). Filled jobs and paid hours should manage moderate increases of around 0.5 percent.
- **globalDairyTrade online auction** (Wednesday, May 4, 6:00am). Whole milk powder prices are expected to ease towards US \$3,800 per tonne from slightly over \$3,900.
- **SNZ Building Consents - March** (Wednesday, May 4, 10:45am). We expect residential consent numbers to rise 2 percent, but with regional divergences. Non-residential consent issuance of around \$290m is expected.
- **SNZ External Migration - March** (Wednesday, May 4, 10:45am). We expect a seasonally adjusted net immigration inflow of 300 persons. Visitor arrivals will ease 2 percent in March, due to lower Asian visitor numbers, especially from Japan.
- **SNZ Household Labour Force Survey – 2011Q1** (Thursday, May 5, 10:45am). We expect a 0.9 percent increase in employment. The unemployment rate is forecast to decline to 6.5 percent. The improvement is more "statistical"

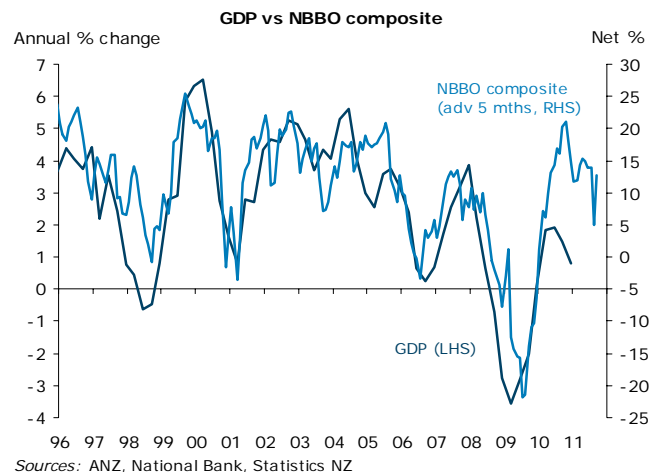
(think mean reversion) than real, though we believe the labour market is slowly improving.

## WHAT'S THE VIEW?

**The rebound in the National Bank *Business Outlook* survey for April augurs well for prospects later in the year.** By April businesses have had a chance to take stock of the economic environment and seem to have found that things were not as bad as had been feared in the immediate quake aftermath. While it is still early days and a huge amount of uncertainty remains, it is clear that the economy is proving more resilient than first thought.

The regional split showed a rebound in confidence in Canterbury, which was encouraging following the March capitulation. Both residential and non-residential construction intentions for the region surged to their highest in the history of the series. While there is still a long road ahead, there is light at the end of the tunnel. **The OCR cuts also appear to have bolstered confidence, judging by the recovery in confidence in other regions.**

**The immediate question is whether expectations will be matched by reality.** Recall that the same aura of improvement was apparent in 2010 and the recovery failed to move beyond much more than an inventory rebuild. Consumer balance sheet repair simply hadn't progressed sufficiently.



**We believe the 2011 improvement in confidence has better substance.** Of course, this is akin to saying this time it's different, terminology that tends to be a graveyard for economists.

**However, what is different this time around is:**

- Households have gone through another year of deleveraging, and by our calculations the household savings rate turned positive at the end of 2010. It's still too low, but is far better

## ECONOMIC OVERVIEW

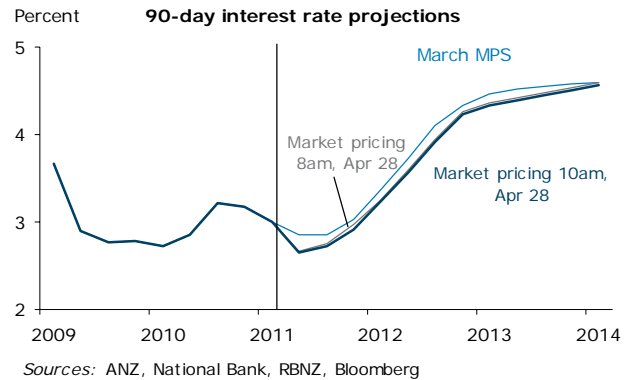
than a year ago.

- There is the Rugby World Cup to look forward to. A host of economic impact assessments are downplaying the boost this will bring. We disagree. Such impact studies look only at the foreign tourism boost and underestimate local activity. If the economy could expand 1.7 percent in one quarter at the start of the 2005 Lion's tour and dip only marginally in the quarter following the tour, the multiplier impacts must be quite considerable. The key to the tournament is its ability to generate cash-flow, which businesses desperately need.
- The quake is forcing the economy to lean on its national balance sheet, which will provide some near-term support to domestic spending. Fiscal policy is expansionary and those insurance cheques will pack some punch. This is not "quality" growth, but we'll take it.
- There is a better glow across the rural sector with Mother Nature providing great climatic conditions. Dairy production levels are remaining firm and well ahead of last season.
- We can see potential for pent-up demand to be unleashed. Residential and plant and machinery investment are low in relation to GDP and have the potential to stage a springboard-style recovery. Firming capital good imports are already flagging improvement in the latter.

**Of course there are still challenges**, both offshore and local. The deleveraging dynamic we've been harping on about for some time is not yet complete. Last week's fall in private sector credit is testament to the role deleveraging is still playing. While debt relative to income has been falling, debt levels remain higher than what we would term 'comfortable' levels. A further test of recovery prospects will be how consumers are viewing the sureness of the recovery. This makes the ANZ Roy Morgan consumer confidence survey key to watch going forward.

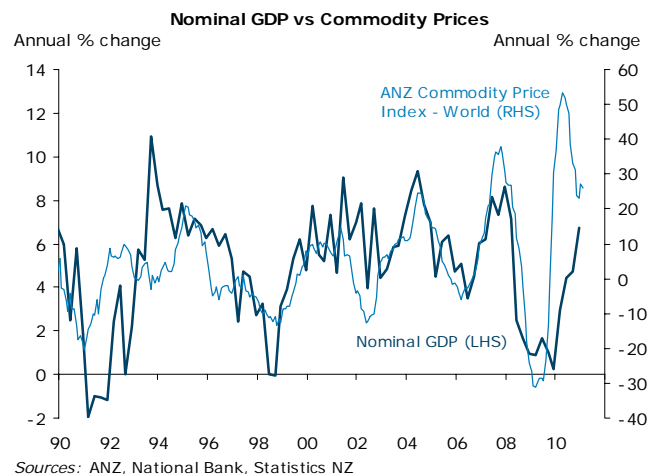
**The April OCR Review confirmed the Bank is willing to take a patient approach.** In many respects there was not much of a change in tone from the March MPS assessment, with the Bank in no hurry to raise the OCR for "some time". Market reaction to the statement was dovish, though there was clearly a better tone relative to March, with references to momentum outside of Christchurch being okay. We would characterise the tone of the statement as representing a subtle shift to being less downbeat, rather than being upbeat. The RBNZ

also provided themselves with more wiggle room on the timing of future rate hikes. **By removing the conditionality of future rate moves on the rebuild, the RBNZ have scope to respond** should economic activity outside of Christchurch prove to be more robust than initially thought, even if reconstruction work is delayed.



Comments on the currency highlight a degree of RBNZ discomfort with the high NZD, though we are left somewhat bemused, given that the Governor had given a speech two weeks earlier that had pretty well ratified a higher currency! We'll put that back-flip down to misreading the market. The RBNZ needs to be aware that the market is attuned to every snippet.

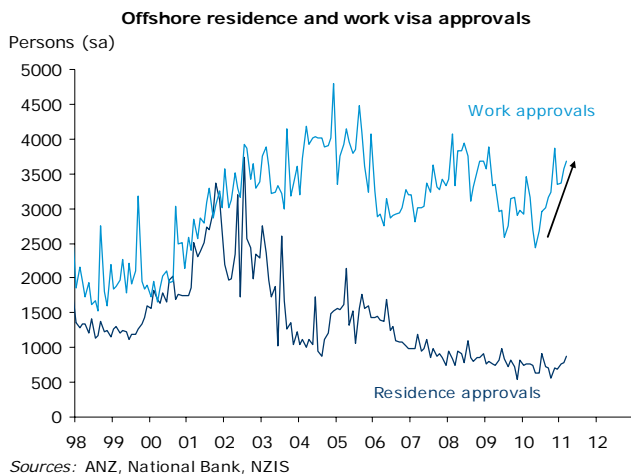
**The benign RBNZ view on the inflation outlook was clearly evident in their assessment.** Given the large amount of cost increases on the horizon we are not as sanguine. A 2.5 percent OCR is not consistent with the medium-term inflation outlook. We still expect the RBNZ to start removing the insurance cut by the end of the year.



## ECONOMIC OVERVIEW

**Merchandise Trade data for March confirmed the support provided by record export commodity prices.** Commodity price data for April, released today, conveyed the positive theme of broad-based price increases, with 10 of the 17 commodities rising. This is providing a partial offset against the strong NZD/USD. While dairy prices have been one of the star performers in recent times, we expect a slight pullback in whole milk powder prices in this week's *globalDairyTrade* online auction, as supply from other producers responds to the high prices on offer. The medium-term outlook for dairy remains positive.

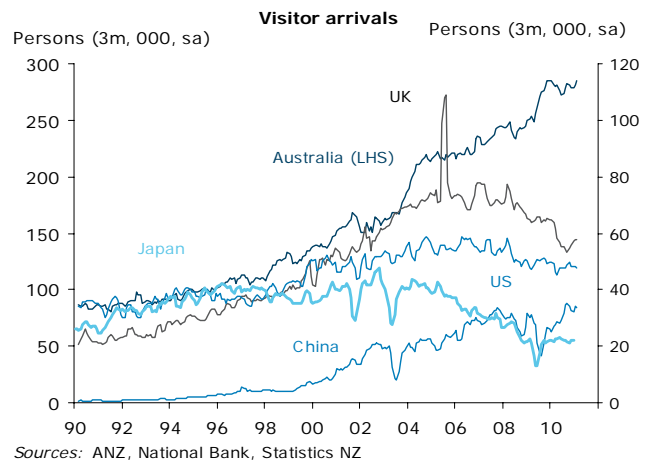
The Q1 labour market data is the major drawcard of this week's local data. Our preview is on page 6. **We expect better numbers in general.** Although the Christchurch earthquake occurred in the middle of the quarter and caused significant labour market disruption, Statistics New Zealand will not be able to capture the earthquake impact in the Q1 data. Hence, we expect the HLFs measure for employment growth to post a solid quarterly increase and for the unemployment rate to move lower, with risks of a stronger (lower) print eventuating. Last week's weaker than expected working age population estimates for the March quarter suggest more potential for a downward unemployment rate surprise than an upward one.



**Of course, whether we think the numbers will be a true barometer of the labour market is another question. Suffice to say we think not.** March quarter employment and unemployment numbers are merely likely to continue the oscillating path of late where poor numbers are followed by good ones and so on. In addition, better numbers in March are likely to be reversed in June in any case, as this is when the job losses in Christchurch will hit. However, as we noted a few weeks ago, on-line advertising for jobs in Canterbury has actually

surged of late and we suspect some job substitution is going on (i.e. replacement demand from the CBD is forcing others to hire). Stepping back, benefit numbers tracked down marginally over the March quarter, so at least the real-time stuff is showing slight improvement, which is what we suspect is really going on. We'll be keeping a close eye on such timely data going forward. Another useful labour market barometer is offshore work visas approved by Immigration NZ. These have been picking up since the middle of last year, whilst the numbers of residency approvals have been flat.

**The full impact of the Christchurch quake on the migration numbers is likely to be a few months away.** March migration data is expected to deliver a positive monthly net inflow of around 300 persons. Lower Asian visitor arrivals, especially from Japan, are expected to contribute to a small fall in overseas visitor numbers. Given seismic events and the high NZ TWI, we do not envisage better times for the tourism sector until the Rugby World Cup.



**March figures for building consents are expected to highlight regional differences.** We expect the number of residential consents to increase 2 percent, despite another sizeable fall in Canterbury issuance being on the cards. The housing market is gaining traction, especially in Auckland, and this is expected to provide a boost to construction sector activity on top of the pending repair/reconstruction work. The scale of rebuilding is a massive multi-year undertaking and resources will have to shift for the work to go ahead.

This and the current mix of monetary conditions (which are more favourable for domestic spending than income generation via exports) may slow the pace of economic rebalancing. We will continue to closely monitor trends in the monthly trade balance

## ECONOMIC OVERVIEW

and credit growth to ascertain the trajectory for the current account deficit. It is expected to head further into the red over the remainder of this year. One of the timeliest ways to improve a national saving shortfall relative to our investment needs is through tightening fiscal policy. **The May 19 Budget is at a critical juncture and will provide a true test of character.** As we note on page 7, current market conditions have been favourable for government bond issuance and the Government has been prudent in pre-funding more of its borrowing at attractive rates. Nevertheless, the cupboard is effectively bare, with little in the kitty for election sweeteners.

### RECENT LOCAL DATA

- **ANZ Commodity Price Index – April.** The ANZ Commodity Price Index rose 1.6 percent to be 25.4 percent higher than 12 months earlier. In NZD terms, commodity prices fell 3.9 percent (+14.9 percent y/y).
- **National Bank Business Outlook – April.** General Business Confidence rose 23 points to +14. Own activity rose to +30 (from +15), with employment intentions rising and investment intentions stable. Pricing intentions eased slightly to +28 from +29.
- **April 2011 OCR Review.** The OCR was left unchanged at 2.50 percent, with the Governor noting that “Given the outlook for core inflation and continued economic disruption stemming from the earthquakes, the current level of the OCR is likely to remain appropriate for some time”.
- **SNZ Merchandise Trade – March.** A monthly surplus of \$464m was recorded, with the annual trade surplus narrowing to \$631m from \$775m in February.
- **RBNZ Credit Aggregates – March.** Resident private sector credit ex-repo fell 0.3 percent m/m (+1.1 percent y/y). Household credit grew 1.2 percent y/y, with business credit up 0.1 percent y/y. Agriculture credit levels were unchanged on a year ago.

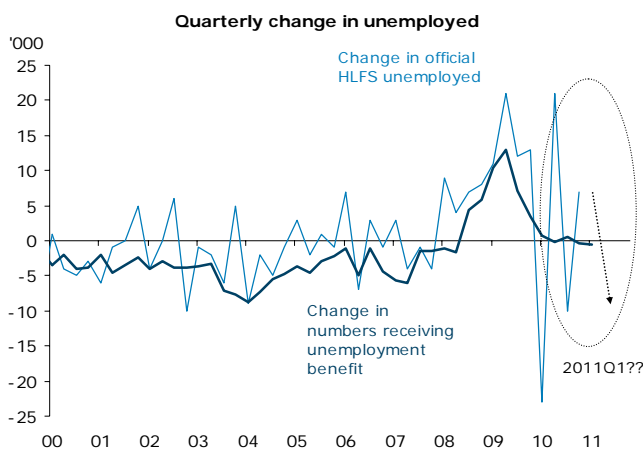
## 2011Q1 LABOUR MARKET PREVIEW

### SUMMARY

We expect the HLFS measure for employment growth to post a solid quarterly increase and the unemployment rate to move lower. Statistics New Zealand was unable to fully incorporate the impact of the Christchurch earthquake in the Q1 survey. Hence, the risk profile is for stronger quarterly readings which would overstate the true picture. Stepping back, our assessment is that the labour market is improving, slowly. Wage inflation is expected to remain moderate and will not be of immediate concern to the RBNZ.

### SEASONAL SEESAW

**You only need to eye the past five quarterly reads in the HLFS to realise what could be the real driver of this week's unemployment rate figures.** Quarterly readings of late have been volatile: 7 percent (2009Q4), 6 percent (2010Q1), 6.9 percent (Q2), 6.4 percent (Q3), and 6.8 percent (Q4). Hence, we see a lot of potential for a huge amount of noise as opposed to underlying substance in Thursday's figures.



Sources: ANZ, National Bank, MSD, Statistics NZ

**On the employment front, we expect some statistical payback from weak Q4 readings,** with a decent 0.9 percent increase in employment. The unemployment rate is expected to partly reverse its Q4 increase, easing to 6.5 percent. Numbers on the unemployment benefit rose by around 700 in Q4, while HLFS unemployment increased by 7,000 persons. With 700 fewer persons on the unemployment benefit in Q1, the likelihood is for an offsetting fall in HLFS unemployment. With Q1 working age population numbers coming in weaker than we suspect most would have expected, there seems more potential for the unemployment rate to fall, even if employment growth is modest and assuming no major irregularities in the participation rate (a BIG assumption).

Beyond quarterly volatility in the published numbers the spirit of our assessment is of a gradual recovery in the labour market. **March business surveys have shown signs of increasing demand for labour.** Past employment intentions from the March QSBO picked up and expected employment intentions remain in positive territory. The National Bank Survey was more of a mixed bag. **Given the usual lags, signs of sustained labour improvement may not be evident until at least later this year when the recovery will be well established.**

**Despite its obvious impact on the labour market, the Christchurch earthquake will only have a modest impact on the published numbers.** The survey window for the QES ended on February 20. The HLFS was not so lucky, with about 36 percent of the Canterbury sample unable to be surveyed in the March quarter. However, Statistics New Zealand will use pre-earthquake responses from Canterbury to estimate the labour force status of non-respondents. One wonders what will happen to the March quarter GDP estimates.

**Tuesday's wage data is expected to highlight moderate rates of wage growth,** which will pose no immediate inflationary threat. Most workers generally have little bargaining power at present and have to take what they can get. Given the usual lags between wages and skill shortages we are unlikely to see a broad-based pick up in wage growth until later this year. Nevertheless, we expect wage inflation readings over the next few quarters to highlight increasing sector differences. Wage settlements for the public sector and retail should remain low. There will be pockets of strength, with pending labour shortages in the technical skills area expected to become evident on the wage front. We will pay close attention to wage rates in the construction sector going forward, to see if the relative shifts in wage rates are starting to occur.

March 2011 quarter expectations		
	Our Forecast	Market
LCI salary and wage ordinary time (private sector)	+0.6% q/q +2.2% y/y	+0.6% q/q +2.2% y/y
QES salary and wage ordinary time (private sector)	+0.5% q/q +2.7% y/y	+0.8% q/q +3.0% y/y
HLFS unemployment rate (s.a.)	6.5%	6.7%
HLFS participation rate (s.a.)	68.1%	68.1
HLFS employment growth	+0.9% q/q +1.2% y/y	+0.3% q/q +0.6% y/y

# WHAT'S REALLY HAPPENING WITH BOND TENDER ISSUANCE?

## SUMMARY

The NZ Debt Management Office issued \$2.6bn of bonds in April, taking issuance for the fiscal year to date to \$16.5bn. Fear of increased bond issuance has been one of the key factors behind NZGS bond underperformance relative to swap over the past year. However, strong demand over the last month has swamped supply. Indeed, although the DMO did not issue quite as many bonds as it did in March, total bids over April reached a record \$9.5bn.

## DEMAND DRIVEN SUPPLY

**We are now 10 months through the 2010/11 fiscal year, which ends in June, and so far, the Crown has issued \$16.5bn of debt**, which equates to around \$380m per week. That's a much larger weekly average than we have seen at any time before, but this has as much to do with demand (allowing the government to pre-fund) as supply.

**This increased issuance is getting considerable attention in some quarters with references to the sustainability, price and burden on subsequent generations.** Certainly over March you could see evidence of this with increased supply leading to a deterioration in bid cover ratios and reduced price tension at the DMO's weekly government stock tenders.

**The situation for April has improved considerably.** As the chart below and table overleaf both show, overall bid cover surged in April, and this has been accompanied by a tightening up in the spread between the market and issuance yields (i.e. the transaction cost). And this is occurring despite the fact that two large credit rating agencies - Standard & Poor's and Fitch – both have NZ on negative outlook.

**We believe there are a number of reasons for this.** One is New Zealand's relatively strong fiscal position, at least against global peers, in an environment where sovereign risk concerns are becoming more pronounced. While we have a large deficit, the opening position for debt is low. International investors are also keen to diversify out of traditional markets like the US Treasury market, and it is somewhat ironic that increased issuance also means increased liquidity. Investors also appear eager to take advantage of a potential catch up in the New Zealand dollar relative to the Australian dollar. We expect these trends to continue for some time yet, and this is mainly due to the fact that the government has committed to getting its fiscal house in order. This is crucial if the government wants to maintain investor confidence.

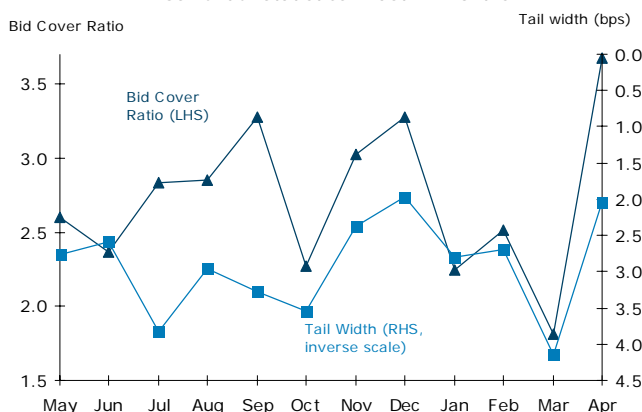
**Turning again to the amount of issuance, we must acknowledge that there has been significant pre-funding.** Given rapidly changing economic conditions, it is difficult to estimate exactly how much pre-funding has been done. What we do know is that in the December Half Year Economic and Fiscal Update (HYEFU) it announced the need to issue \$13.5bn of debt this fiscal year. With \$16.5bn of issuance already completed, this means that at least \$3b of what has been issued so far is pre-funding. And in fact, with 2 months yet to go in the fiscal year, pre-funding may end up accounting for closer to \$6bn of issuance.

**It is also worth reflecting on the refinancing element of increased issuance.** When you consider that the government has \$10bn benchmark bond maturities every 2 years, if one was to smooth out the refinancing requirement, it actually equates to \$5bn per annum. It is therefore not really accurate to state that the government is borrowing \$380m per week. Indeed, almost \$100m of this is purely refinancing.

## BAD LUCK OR BAD MANAGEMENT?

Of course, it's one thing to say that the government is borrowing cleverly. Perhaps it is more pertinent to ask why the government is borrowing so much in the first place? There are a multitude of reasons. **However, before the second earthquake, the government was on track to close the fiscal gap by 2015/16. That may seem a long time away, but relative to global peers, it's remarkably quick.** Indeed, some countries (most notably Japan and the US) have no intention of ever running a surplus, and most of Europe is satisfied with a 3 percent deficit.

NZGS Tender Statistics - Last 12 months



Sources: ANZ, NZDMO

## WHAT'S REALLY HAPPENING WITH BOND TENDER ISSUANCE?

**The real problem for the Crown has been the earthquakes.** We estimate that the direct cost (in terms of damage to assets) of the quake for the Government (excluding the EQC) was around \$5bn. We also estimate that tax revenue stemming from the economic slowdown caused by the quake will be around \$2bn. That's \$7bn, or around 3.5 percent of GDP. The problem is it all occurred in the space

of 6 months. Perhaps more importantly, this cost is the result of a natural disaster, and not the result of fiscal largesse. And while it might be a nice thought to think that the re-build can be done without borrowing, the reality is that's the only way the government can realise a large sum of cash quickly. **Thankfully, market conditions are very accommodative at the moment.**

Summary of NZGS Issuance for the Previous Month						
Date	Bonds Offered	Bid Cover	Tail <sup>~</sup>	Tension <sup>^</sup>	Bids Accepted	Comment
7 Apr	\$400m 2019	2.1	2	0.5	\$400m	Slow start, but things only get better from here.
	\$100m 2021	2.3	3	0.0	\$100m	
14 Apr	\$100m 2013	3.9	3	-1.0	\$100m	Good demand for all bonds at prices that were at or better than market.
	\$100m 2017	3.3	1	-0.5	\$100m	
	\$500m 2029	3.8	2	-0.5	\$500m	
21 Apr	\$200m 2013	3.5	2	-2.0	\$200m	Record \$1bn tender, very well received.
	\$800m 2019	2.8	2	-1.5	\$800m	
29 Apr*	\$400m 2019	7.2	2	-4.0	\$400m	Surge in bid cover, and at very competitive prices.
<b>Total</b>	<b>\$2,600m</b>	<b>3.67</b>	<b>2.04</b>	<b>-1.31</b>	<b>\$2,600m</b>	<b>2<sup>nd</sup> biggest issuance month ever, with record total bids. Significantly improved bid cover and narrower tails/tension.</b>

Source: ANZ, Debt Management Office.

\* Delayed by one day following the RBNZ OCR Review as is standard practice.

<sup>~</sup> Tail refers to the total "width" of the successful range. For example, if the successful range is \*5.70% to 5.73%, the tail is considered to be 4bp, spanning 5.70%, 5.71%, 5.72% and 5.73%

<sup>^</sup> Tension refers to the "width" of the successful range using the market mid rate during bidding as the lower bound. This removes the distortion "below market" bid can have on tails. Using the same example as above, if the market mid rate was at 5.72% during bidding, the tension is considered to be 2bp, spanning 5.72% and 5.73%. That's a better representation of what happened, as although the tail was 4bp wide, it was because some bids were below market.

# INTEREST RATE STRATEGY

## SUMMARY

Dovish comments last week from both the US Federal Reserve and the RBNZ caught the markets mildly unaware, and have seen interest rates fall. Although we believe inflation risks remain, the debate around the timing of the next move from both central banks has been parked for now. This should keep a lid on interest rates for a few more months. However, the tone is set to be a little more upbeat this week, with the RBA likely to be on guard tomorrow, and the ECB highlighting its hawkish position. Closer to home, NZGS bonds remain in hot demand.

## MARKET THEMES

- Both the US Federal Reserve and the RBNZ have hung their hats on stable inflation expectations. This is a brave assumption indeed.
- By contrast, the RBA are unlikely to be as relaxed in the wake of much higher than expected CPI data last week. This could rattle nerves here.
- Domestic data this week also has the potential to test markets, with the risk of stronger HLFS data.

## REVIEW AND OUTLOOK

**Judging by the price action, the local market went into last week's duo of the FOMC meeting and RBNZ OCR Review expecting a more upbeat tone.** But while both central banks acknowledged the pickup in activity, they also both believe the recent run-up in inflation is transitory, and will not become entrenched in expectations. This is a key judgement, and as we discuss on page 3, challenges remain. But for now, the market is taking comfort from the relaxed tone, and "carry" is back in favour.

**But the Nirvana may not last, particularly if the RBA starts to up the ante** (as it may have no choice but to do after last week's uncomfortably high CPI data) and the ECB continue talking tough. As such, we may see rates move gently higher this week. Not that we expect another ECB hike, but if anyone harbours deep concerns about inflation, it is ECB President Trichet. In fact, we would go so far to say that when it comes to inflation, **two distinct camps seem to be forming, with the ECB and Swiss National Bank in the hawkish camp, and the Fed and RBNZ firmly on the other side.**

**This week's HLFS employment report seems to be skewed with risks to the strong side,** and may challenge market pricing. But with no earthquake impact courtesy of difficulties surveying Christchurch post the February quake, **any market reaction may be short lived.**

## PREFERRED BORROWING STRATEGIES

With the RBNZ prepared to give low inflation expectations the benefit of the doubt, judging the level of the OCR to be "appropriate for some time", it is not obvious that there is good value in adding to hedges here. Of course, it often isn't obvious until after the fact, and for that reason alone, we favour adding to hedges should interest rates become overextended to the downside. We remain worried about the inflation outlook, and while we hope the RBNZ is right, and inflation reverts back to more normal levels once one-offs fade, the risk is it doesn't. At current levels we favour standing by, but we will be monitoring price action closely.

## GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↓	Tone of OCR Review surprisingly dovish.
NZ data	↔/↑	Risks point to stronger data.
Fed Funds / front end	↔	Bernanke in no hurry to hike, but QE3 won't happen.
RBA	↔/↑	Hike this week possible, but unlikely. Tone will change.
US 10 year	↔/↓	Carry back en vogue.
NZ swap curve	↔	Neutral. Front end & global long end rates biased lower
Flow	↔	Suddenly coming from the receive/buy side.
Technicals	↔/↓	3.30% 2yr resistance.

## MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 28-Apr-11	0	0
Thu 9-Jun-11	+1	0
Thu 28-Jul-11	+1	+3
Thu 15-Sep-11	+1	+10
Thu 27-Oct-11	+12	+14
Thu 8-Dec-11	+16	+35
Thu 26-Jan-12	+37	+46

## TRADING THEMES WE FAVOUR AT PRESENT

We have written about the "supply-driven demand" dynamic at play in the NZGS market several times recently, and it has been this that has seen the bond market outperform the swap market despite a massive ramp-up in issuance. And judging by last week's rather small \$400m tender, demand appears to be strong no matter how you cut it – with large tenders being supported on the presumption they reflect demand, and small tenders being in demand because the market is short. For now, then, we favour hanging onto bonds against swap. We remain circumspect with regards to the curve. Although we believe the steeper the curve goes, the less the RBNZ needs to hike (turbo-charging the inverse relationship between the OCR and the curve), with the 2yr in the low 3.30s, any significant steepening from here needs global rates to rise. But for now, it looks like US long-end rates are biased to stay low, spurred on by a dovish Fed.

# CURRENCY STRATEGY

## SUMMARY

The NZD remains sought after, though it is starting to run into a bit of resistance to the topside. But with the USD weakness theme still prevalent, the risk of a more hawkish RBA tomorrow, and chances of an upside surprise to NZ's Q1 employment report on Thursday, further gains in the NZD this week are on the cards. We are still on the lookout for the inevitable correction, but this could be from higher levels than here.

## MARKET THEMES

- RBNZ says level of NZD "unwelcome", but they can't do much about it.
- US Fed to let QE2 run its full course and rate rises some time off. USD sold as a result.
- AU CPI surprises to upside. Could RBA up the rhetoric tomorrow?
- Demand for NZ government bonds strong, putting upward pressure on NZD.

## REVIEW AND OUTLOOK

In our last issue (on 21 April), we said we expected the NZD to make a sustained push above 0.80 and so it transpired. The prevailing themes remain the same: USD weakness, AUD strength and ongoing fundamental demand for NZD. Despite the RBNZ noting that the level of the NZD is "unwelcome" and that it will have "some dampening effect on economic activity", there is not much the Bank can do about it. With the US Federal Reserve prepared to underwrite the US recovery with ultra-loose policies for as long as it takes, we will see continued USD weakness in the near-term until such time as the US Federal Reserve reverses course.

This week, further gains in the NZD are on the cards, judging from the key event risks that lie ahead. Firstly, tomorrow's RBA decision will not see a move in the cash rate, but we could see more hawkish rhetoric in light of the surprisingly strong Australian Q1 CPI print. With the Australian market not pricing in much chance of a rate hike over the next few months, a more hawkish tone from the RBA would certainly lead to a repricing at the front end of the rates market, and push AUDUSD past 1.10 if it has not gotten there already by then. Locally, there is the NZ Q1 employment report on Thursday. Statistics NZ was unable to survey the earthquake-affected areas, so the Q1 data will print largely as if the earthquake did not occur. This suggests the employment report could print stronger than market expectations, which will provide a boost to the NZD.

NZD also continues to benefit from strong demand for NZ government bonds from offshore. Recent bond tenders have attracted very strong bids, as global diversification away from USD-denominated assets has seen NZD assets sought after. Should the upcoming NZ Government Budget on May 19 reveal a credible plan to return to surplus, sufficient to satisfy rating agencies and prevent a rating downgrade, this would see demand for NZ government bonds increase further.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↑	Close to our fair value estimates.
Yield	↔/↓	RBNZ on hold for some time. Will RBA surprise tomorrow?
Commodities	↔	NZ and AU commodity price indexes to be released today to reveal extent of relative strength.
Partial indicators	↑	Strong AU CPI could see RBA up the rhetoric.
Technicals	↔	Support at 0.7300.
Sentiment	↔	Commodity currencies in favour.
Other	↑	Terms of trade continue to support.
<b>On balance</b>	↔	<b>NZD will lag behind AUD moves for now.</b>

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↓	Yield differentials suggest NZD should be lower.
Commodities	↑	Soft commodities driving more exporter hedging.
Risk aversion	↔/↑	Risk gauges turning higher.
Partial indicators	↔/↑	NZ Q1 employment data could surprise on upside.
Technicals	↔	Key pivot at 0.8080.
AUD	↔/↑	1.10 and beyond?
Sentiment	↑	Commodity currencies in favour.
Other	↑	Strong demand for NZ bonds.
<b>On balance</b>	↔/↑	<b>Weak USD=high commodity prices=higher NZD.</b>

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
2-May	AU	AiG Performance of Mfg Index - APR	- -	47.9	11:30
	AU	TD Securities Inflation MoM% - APR	- -	0.60%	12:30
	AU	TD Securities Inflation YoY% - APR	- -	3.80%	12:30
	NZ	ANZ Commodity Price - APR	- -	4.70%	13:00
	AU	House Price Index QoQ - 1Q	-0.50%	0.70%	13:30
	AU	House Price Index YoY - 1Q	1.60%	5.80%	13:30
	JN	Labor Cash Earnings YoY - MAR	- -	0.30%	13:30
	AU	RBA Commodity Price Index Au - APR	- -	101.6	18:30
	AU	RBA Commodity Index SDR YoY% - APR	- -	41.30%	18:30
	GE	PMI Manufacturing - APR F	61.7	61.7	19:55
	EC	PMI Manufacturing - APR F	57.7	57.7	20:00
3-May	US	Construction Spending MoM - MAR	0.40%	-1.40%	02:00
	US	ISM Manufacturing - APR	59.5	61.2	02:00
	US	ISM Prices Paid - APR	83	85	02:00
	NZ	Average Hourly Earnings QoQ - 1Q	0.50%	0.60%	10:45
	NZ	Private Wages Exc Overtime QoQ - 1Q	0.60%	0.60%	10:45
	NZ	Private Wages Inc Overtime QoQ - 1Q	0.50%	0.60%	10:45
	CH	China Non-manufacturing PMI - APR	- -	60.2	13:00
	AU	RBA CASH TARGET - MAY	4.75%	4.75%	16:30
	UK	PMI Manufacturing - APR	57	57.1	20:30
	EC	Euro-Zone PPI (MoM) - MAR	0.70%	0.80%	21:00
	EC	Euro-Zone PPI (YoY) - MAR	6.60%	6.60%	21:00
	UK	CBI Reported Sales - APR	15	15	22:00
4-May	US	Factory Orders - MAR	1.90%	-0.10%	02:00
	NZ	Building Permits MoM - MAR	- -	-9.70%	10:45
	NZ	Net Migration SA - MAR	- -	470	10:45
	UK	BRC Shop Price Index YoY - APR	- -	2.40%	11:01
	AU	AiG Performance of Service Index - APR	- -	46.5	11:30
	AU	HIA New Home Sales (MoM) - MAR	- -	0.60%	13:00
	UK	Nat'wide House prices sa (MoM) - APR	0.10%	0.50%	18:00
	UK	Nat'wide House prices nsa(YoY) - APR	-0.70%	0.10%	18:00
	GE	PMI Services - APR F	57.7	57.7	19:55
	EC	PMI Composite - APR F	57.8	57.8	20:00
	EC	PMI Services - APR F	56.9	56.9	20:00
	UK	PMI Construction - APR	55.9	56.4	20:30
	UK	Net Consumer Credit - MAR	0.6B	0.8B	20:30
	UK	Net Lending Sec. on Dwellings - MAR	1.3B	1.2B	20:30
	UK	Mortgage Approvals - MAR	48.0K	47.0K	20:30
	UK	M4 Money Supply (MoM) - MAR	- -	-0.30%	20:30
	UK	M4 Money Supply (YoY) - MAR	- -	-1.50%	20:30
	EC	Euro-Zone Retail Sales (MoM) - MAR	-0.10%	-0.10%	21:00
	EC	Euro-Zone Retail Sales (YoY) - MAR	0.00%	0.10%	21:00
	US	Challenger Job Cuts YoY - APR	- -	-38.60%	23:30
5-May	US	ADP Employment Change - APR	193K	201K	00:15
	US	ISM Non-Manf. Composite - APR	57.4	57.3	02:00
	NZ	Unemployment Rate - 1Q	6.70%	6.80%	10:45
	NZ	Employment Change (QoQ) - 1Q	0.60%	-0.50%	10:45
	NZ	Employment Change (YoY) - 1Q	0.80%	1.30%	10:45

Continued on following page

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
5-May	NZ	Participation Rate (QoQ) - 1Q	68.10%	67.90%	10:45
	AU	Building Approvals (MoM) - MAR	5.00%	-7.40%	13:30
	AU	Building Approvals (YoY) - MAR	-25.20%	-21.80%	13:30
	AU	Retail Sales s.a. (MoM) - MAR	0.50%	0.50%	13:30
	AU	Retail Sales Ex Inflation(QoQ) - 1Q	0.60%	-0.30%	13:30
	CH	China HSBC Services PMI - APR	- -	51.7	14:30
	AU	Foreign Reserves - APR	- -	35.7B	18:30
	UK	PMI Services - APR	56	57.1	20:30
	UK	Official Reserves (Changes) - APR	- -	\$2253M	20:30
	GE	Factory Orders YoY (nsa) - MAR	15.40%	20.10%	22:00
	GE	Factory Orders MoM (sa) - MAR	0.40%	2.40%	22:00
	UK	BOE Asset Purchase Target - MAY	200B	200B	23:00
	UK	BOE Rate Decision - MAY	0.50%	0.50%	23:00
	EC	ECB Rate Decision - MAY	1.25%	1.25%	23:45
6-May	US	Nonfarm Productivity - 1Q P	1.00%	2.60%	00:30
	US	Unit Labor Costs - 1Q P	0.80%	-0.60%	00:30
	US	Initial Jobless Claims - 30 APR	410K	429K	00:30
	US	Continuing Claims - 23 APR	3637K	3641K	00:30
	US	Bloomberg Consumer Comfort - 37012	- -	-45.1	01:45
	AU	AiG Perf of Construction Index - APR	- -	39.4	11:30
	JN	Monetary Base (YoY) - APR	- -	16.90%	11:50
	UK	PPI Input NSA (YoY) - APR	16.40%	14.60%	20:30
	UK	PPI Output n.s.a. (YoY) - APR	5.10%	5.40%	20:30
	UK	PPI Output Core NSA (YoY) - APR	3.00%	3.00%	20:30
	GE	Industrial Prod. YoY (nsa wda) - MAR	10.30%	14.80%	22:00
	GE	Industrial Production MoM (sa) - MAR	0.50%	1.60%	22:00
7-May	US	Change in Nonfarm Payrolls - APR	190K	216K	00:30
	US	Change in Private Payrolls - APR	200K	230K	00:30
	US	Change in Manufact. Payrolls - APR	20K	17K	00:30
	US	Avg Hourly Earning MOM All Emp - APR	0.20%	0.00%	00:30
	US	Avg Hourly Earning YOY All Emp - APR	1.80%	1.70%	00:30
	US	Avg Weekly Hours All Employees - APR	34.3	34.3	00:30
	US	Unemployment Rate - APR	8.80%	8.80%	00:30
	US	Chg in Household Survey Empl - APR	- -	291	00:30
	US	Consumer Credit - MAR	\$5.000B	\$7.617B	07:00

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.

Sources: Dow Jones, Reuters, Bloomberg, ANZ, National Bank. All \$ values in local currency.

Note: All surveys are preliminary and subject to change.

## LOCAL DATA WATCH

**Key focus over the next few weeks:** The RBNZ stuck to the script with the April OCR review, giving the insurance cut time to work. A bounce in business sentiment suggests a return to business as usual for many. Forthcoming commodity price data will show the support being provided by high export prices. Labour market data this week will be hard to interpret, but the key takeout will be a picture of gradual improvement. Seismic events will start to impact on migration and visitor arrivals, with the firming in construction sector consent issuance a month or two away. The economic data over the coming months will remain noisy for a while yet. We will watch for signs of rebuilding activity and for strengthening activity within interest rate sensitive sectors.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 3 May (10:45am)	Labour Cost Index – 2011Q1	Firming	Private sector LCI wages should rise 0.6 percent (2.2 percent y/y). Larger increases are expected in the unadjusted LCI.
Tue 3 May (10:45am)	Quarterly Employment Survey – 2011Q1	Tightening	Private ordinary time average earnings growth to accelerate to 2.7 percent y/y. Filled jobs and paid hours to rise 0.5 percent.
Wed 4 May (6:00am)	<i>globalDairyTrade</i> auction	Consolidation	We expect whole milk powder prices to consolidate around the US \$3,800 per tonne level.
Wed 4 May (10:45am)	External Migration – March	Easing	A net PLT inflow of 300 persons is expected. Lower Asian visitor numbers should see a 2 percent fall in visitor arrivals.
Wed 4 May (10:45am)	Building Consents – March	Flat	Dwelling consent numbers should remain broadly unchanged. Large falls in Canterbury to be offset elsewhere.
Thur 5 May (10:45am)	HLFS – 2011Q1	See-saw	We expect a 0.9 percent increase in employment, with the unemployment rate set to decline to 6.5 percent.
Tue 10 May (10:45am)	Electronic Card Transactions - April	Improving	March data showed resilience and we expect a small climb in retail transaction values.
Fri 13 May (10:00am)	REINZ housing market data - April	Firming	We expect a 4 percent increase in sales numbers. Days to sell are expected to ease further, with prices broadly stable.
Fri 13 May (10:45am)	Retail Trade Survey - 2011Q1	Up	Retail ECT data and rising car registrations suggest a 2.5 percent increase in Q1 retail values. Core retail is expected to rise 1.5 percent. Retail volumes are expected to rise 1.5 percent, with core volumes up 0.7 percent.
Wed 4 May (6:00am)	<i>globalDairyTrade</i> auction	Consolidation	We expect whole milk powder prices to consolidate around the US \$3,700-3,800 per tonne level.
Wed 18 May (10:45am)	Producers Price Index – 2011Q1	Up	Higher oil and commodity prices should boost input prices by 1 percent. Output prices should rise by around 0.8 percent.
Wed 18 May (10:45am)	Capital Goods Price Index – 2011Q1	Down	The high NZD/USD should lower capital prices by 0.3 percent. Construction costs could fall, but look set to firm over 2011.
Wed 18 May (1:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Fri 20 May (10:45am)	International Travel and Migration – April	Easing	A net PLT inflow of 100 persons is expected. Visitor arrival numbers should remain unchanged at low levels.
Mon 30 May (10:45am)	Overseas Merchandise Trade- April	Up	Seasonal patterns and high commodity prices are expected to deliver a monthly surplus of around \$600m.
Wed 1 June (6:00am)	<i>globalDairyTrade</i> auction	Consolidation	We expect whole milk powder prices to consolidate around the US \$3,700-3,800 per tonne level.
Wed 1 June (10:45am)	Overseas Trade Indexes – 2011Q1	TOT positive, net trade negative	We expect a 2 percent increase in the terms of trade, with export prices rising 5 percent. Export volumes should remain flat, with import volumes up 5 percent.
Fri 3 June (10:45am)	Building Consents - April	Building	Residential consents are expected to rise 5 percent. Strengthening construction sector activity will be a feature of H2.
<b>On Balance</b>		<b>Mixed</b>	<b>A real economy and pricing side dichotomy may start to emerge. Recent signs of life in housing and retail.</b>

## KEY FORECASTS AND RATES

	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
GDP (% qoq)	0.1	-0.2	0.2	<b>-0.4</b>	<b>0.1</b>	<b>1.4</b>	<b>1.8</b>	<b>0.7</b>	<b>0.9</b>	<b>0.9</b>
GDP (% yoy)	1.9	1.5	0.8	<b>-0.3</b>	<b>-0.3</b>	<b>1.3</b>	<b>2.9</b>	<b>4.1</b>	<b>4.9</b>	<b>4.4</b>
CPI (% qoq)	0.2	1.1	2.3	0.8	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>	<b>0.8</b>	<b>0.7</b>
CPI (% yoy)	1.7	1.5	4.0	4.5	<b>5.3</b>	<b>5.0</b>	<b>3.3</b>	<b>3.1</b>	<b>2.9</b>	<b>2.7</b>
Employment (% qoq)	-0.3	1.1	-0.5	<b>0.9</b>	<b>0.2</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.5</b>
Employment (% yoy)	0.0	1.9	1.3	<b>1.2</b>	<b>1.7</b>	<b>1.1</b>	<b>2.1</b>	<b>1.7</b>	<b>1.9</b>	<b>1.9</b>
Unemployment Rate (% sa)	6.9	6.4	6.8	<b>6.5</b>	<b>6.7</b>	<b>6.6</b>	<b>6.4</b>	<b>6.3</b>	<b>6.2</b>	<b>6.1</b>
Current Account (% GDP)	-3.0	-2.2	-2.3	<b>0.3</b>	<b>0.2</b>	<b>-1.8</b>	<b>-1.6</b>	<b>-4.7</b>	<b>-5.0</b>	<b>-5.3</b>
Terms of Trade (% qoq)	2.0	3.0	0.6	<b>2.5</b>	<b>1.5</b>	<b>1.5</b>	<b>0.5</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.8</b>
Terms of Trade (% yoy)	12.7	17.9	12.2	<b>8.3</b>	<b>7.8</b>	<b>6.3</b>	<b>6.1</b>	<b>2.8</b>	<b>0.5</b>	<b>-1.8</b>

	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11
Retail ECT (% mom)	0.3	-0.7	2.3	0.9	1.0	-0.9	2.4	-0.2	1.3	..
Retail ECT (% yoy)	4.4	1.7	5.0	4.8	6.3	4.4	5.7	6.2	6.6	..
Credit Card Billings (% mom)	-1.1	0.8	0.8	0.5	0.0	-1.0	2.6	-0.4	-0.5	..
Credit Card Billings (% yoy)	2.7	2.4	4.3	4.2	3.1	2.1	4.8	4.4	2.2	..
Car registrations (% mom)	-6.4	0.0	2.6	-3.8	13.5	-8.6	1.0	-1.1	-0.2	..
Car registrations (% yoy)	16.0	19.0	19.2	9.4	23.5	6.4	6.8	2.8	-1.0	..
Building consents (% mom)	3.3	-17.6	0.9	-1.9	8.0	-18.4	9.1	-9.7	..	..
Building consents (% yoy)	25.1	-3.1	-9.5	-17.4	-9.1	-26.5	-14.8	-28.9	..	..
REINZ House Price Index (% yoy)	1.8	0.9	-1.3	-3.5	-1.9	-1.6	-2.6	-0.7	-1.8	..
Household Lending Growth (% mom)	0.2	0.1	0.2	0.1	0.0	0.0	0.1	0.1	-0.1	..
Household Lending Growth (% yoy)	2.5	2.3	2.3	2.0	1.8	1.6	1.6	1.5	1.2	..
ANZ Roy Morgan Consumer Confidence	115.6	116.3	116.4	113.6	114.5	112.2	117.1	108.1	101.4	101.4
NBNZ Business Confidence	27.9	16.4	13.5	23.7	33.2	29.5	..	34.5	-8.7	14.2
NBNZ Own Activity Outlook	32.4	25.7	26.7	30.5	35.3	34.5	..	36.6	14.7	29.5
Trade Balance (\$m)	-186	-430	-455	-220	-177	-218	10	193	464	..
Trade Balance (\$m ann)	585	871	978	1259	1363	1172	911	775	631	..
ANZ World Commodity Price Index (% mom)	-0.8	-1.4	2.8	3.5	4.5	2.0	3.8	2.7	4.7	..
ANZ World Commodity Price Index (% yoy)	47.3	38.6	32.9	31.4	23.7	23.0	27.2	25.9	29.6	..
Net migration (sa)	930	870	1010	510	600	720	450	460	..	..
Net migration (annual)	15221	14507	13914	12610	11519	10451	8689	8249	..	..

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

## KEY MARKET FORECASTS AND RATES

	ACTUAL			Forecast (end month)						
FX RATES	Feb-11	Mar-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZD/USD	0.752	0.762	0.804	0.74	0.75	0.75	0.74	0.72	0.71	0.70
NZD/AUD	0.739	0.737	0.736	0.73	0.71	0.73	0.73	0.72	0.72	0.73
NZD/EUR	0.545	0.538	0.544	0.53	0.55	0.56	0.56	0.54	0.53	0.52
NZD/JPY	61.53	63.31	65.35	62.9	64.5	66.0	66.6	66.2	66.0	66.5
NZD/GBP	0.463	0.475	0.482	0.46	0.47	0.47	0.47	0.46	0.45	0.45
NZ\$ TWI	66.4	66.7	68.4	65.6	66.4	67.3	67.0	65.7	64.9	64.4
INTEREST RATES	Feb-11	Mar-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZ OCR	3.00	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00
NZ 90 day bill	2.86	2.63	2.65	2.70	2.70	3.10	3.70	3.80	4.20	4.30
NZ 10-yr bond	5.54	5.66	5.44	5.80	5.90	6.10	6.20	6.20	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00	2.00
US 3-mth	0.31	0.30	0.27	0.35	0.35	0.35	0.85	1.60	2.10	2.10
AU Cash Rate	4.75	4.75	4.75	4.75	5.00	5.25	5.25	5.50	5.75	5.75
AU 3-mth	4.97	4.93	4.92	5.00	5.30	5.50	5.60	5.90	6.00	6.00

	29 Mar	25 Apr	26 Apr	27 Apr	28 Apr	29 Apr
Official Cash Rate	2.50	0.00	2.50	2.50	2.50	2.50
90 day bank bill	2.63	0.00	2.65	2.65	2.65	2.67
NZGB 04/13	3.44	0.00	3.42	3.41	3.37	3.30
NZGB 04/15	4.33	0.00	4.46	4.44	4.40	4.29
NZGB 03/19	5.43	0.00	5.50	5.48	5.44	5.29
NZGB 05/21	5.62	0.00	5.65	5.63	5.59	5.44
2 year swap	3.29	0.00	3.34	3.38	3.34	3.34
5 year swap	4.42	0.00	4.61	4.63	4.58	4.53
RBNZ TWI	65.9	0.0	68.8	69.0	68.6	68.2
NZD/USD	0.7505	0.0000	0.7999	0.8069	0.8075	0.8014
NZD/AUD	0.7327	0.0000	0.7488	0.7448	0.7382	0.7348
NZD/JPY	61.35	0.00	65.35	65.79	65.99	65.36
NZD/GBP	0.4690	0.0000	0.4860	0.4891	0.4828	0.4811
NZD/EUR	0.5329	0.0000	0.5507	0.5495	0.5432	0.5402
AUD/USD	1.0243	0.0000	1.0683	1.0834	1.0939	1.0907
EUR/USD	1.4084	0.0000	1.4526	1.4684	1.4865	1.4834
USD/JPY	81.74	0.00	81.70	81.53	81.72	81.56
GBP/USD	1.6002	0.0000	1.6459	1.6498	1.6726	1.6657
Oil (US\$/bbl)	103.54	0.00	111.72	111.72	112.31	112.38
Gold (US\$/oz)	1418.73	0.00	1504.55	1509.20	1530.90	1534.05
Electricity (Haywards)	2.98	4.07	4.86	6.60	5.83	6.55
Baltic Dry Freight Index	1572	1254	1250	1259	1269	1269
Milk futures (US\$/contract)	160	161	161	161	161	163

# IMPORTANT NOTICE

## NEW ZEALAND DISCLOSURE INFORMATION

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

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

### Qualifications, experience and professional standing Experience

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

### Relevant professional body

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

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

### Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

### Dispute resolution facilities

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

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

### Criminal convictions

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

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

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

### Fees

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

### Other interests and relationships

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

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

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- OnePath (NZ) Limited, as a wholly owned subsidiary of the Bank, is an associated person of the Bank. OnePath and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- Direct Broking Limited (DBL), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. DBL may receive remuneration from a third party relating to a security sold by the Investment Adviser.

### Securities about which investment advice is given

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

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

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

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

- Providing cash;



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

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

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

### Record Keeping

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

### Auditing

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

### Use of Money and Property

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

### NEW ZEALAND DISCLAIMER

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

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

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