

NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

22 November 2010

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SURPRISE, SURPRISE

ECONOMIC OVERVIEW

Undoubtedly, Q3 retail data was stronger than market expectations, with intensive consumer discounting saving what was shaping up to be a very subdued pre-GST-hike boost in volumes. It remains to be seen whether a solid increase in Q3 retail volumes will be reflected in consumption volumes. More recent information suggests retail values stepped down a gear in October. The spirit of consumer caution remains entrenched with the stabilisation in consumer sentiment at low levels. However, with consumers still believing better times are ahead and with commodity export prices remaining at high levels, a better 2011 is fast approaching. Today's migration data confirmed continued support to the NZ economy, with tomorrow's RBNZ survey of expectations envisaged to show medium-term inflation steady, irrespective of short-term volatility.

NZ DATA SURPRISE INDEX

This week we introduce our New Zealand Data Surprise Index, which is designed to summarise the evolution of the local dataflow relative to market expectations. Data surprises are standardised and then weighted to illustrate the estimated impact of the surprise on medium-term inflationary pressure, which is the monetary policy focus of the RBNZ. Our index show surprises tend to move in strings, with a strong run of domestic data surprises leading up to the RBNZ tightening in the June MPS. Domestic data has generally surprised on the downside since then, although some improvement in the local data has been evident in November. It is too soon to tell if the economy is at a turning point and we will continue to closely monitor the local data over the next few weeks.

INTEREST RATE STRATEGY

Global interest rates have been volatile over the past week, and this has been felt in New Zealand. Swap rates are significantly higher as a result, particularly at the long end of the curve, with the steepening the curve the most notable development. Although the long end will continue to be influenced by global developments, there's a limit to how much higher key bellwethers like the 2yr swap can go. Although long end swaps may continue moving higher with US rates, solid demand for NZGS at weekly tenders will limit the impact, and see swap spreads normalise.

CURRENCY STRATEGY

The USD strength early last week faded despite a strong Philly Fed reading. Currency markets continue to display tension between mixed US data and concerns about European economic instability. Ireland may have thrown in the towel and asked for assistance, but the market will quickly start to focus on the next weakest link among the peripherals. Meanwhile the NZD continues to be squeezed between two giants – the US and China. Expect this week to be very quiet with little data and the Thanksgiving holiday in the US. The key risk is if the PBOC decides to follow up their increase of the reserve requirement ratio with a hike in their benchmark interest rate.

ECONOMIC OVERVIEW

SUMMARY

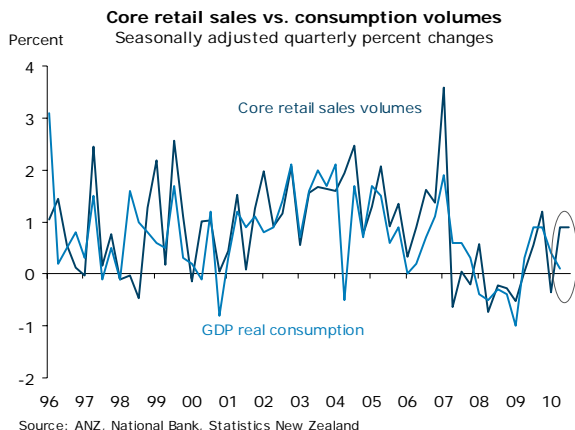
Undoubtedly, Q3 retail data was stronger than market expectations, with intensive consumer discounting saving what was shaping up to be a very subdued pre-GST-hike boost in volumes. It remains to be seen whether a solid increase in Q3 retail volumes will be reflected in consumption volumes. More recent information suggests retail values stepped down a gear in October. The spirit of consumer caution remains entrenched with the stabilisation in consumer sentiment at low levels. However, with consumers still believing better times are ahead and with commodity export prices remaining at high levels, a better 2011 is fast approaching. Today's migration data confirmed continued support to the NZ economy, with tomorrow's RBNZ survey of expectations envisaged to show medium-term inflation steady, irrespective of short-term volatility.

THIS WEEK'S EVENTS

- **RBNZ Survey of Expectations – Q4** (Tuesday, November 23, 3:00pm). Two-year-ahead expected inflation is expected to come in at slightly below the 2.6 percent in the Q3 survey.

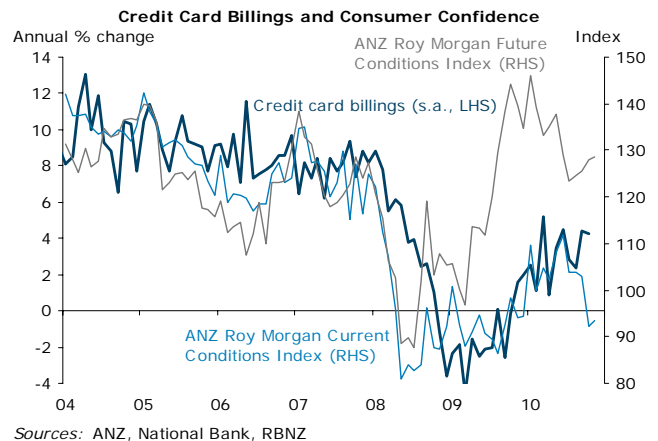
WHAT'S THE VIEW?

Intensive retail discounting saved what was shaping up to be a very disappointing quarter for retail volumes. The presence of such large discounting speaks volumes (no pun intended) about the weak state of retail in New Zealand. We also feel that consumption could well be weaker than implied by these numbers given households have been reining in discretionary and services spending, which are not well represented in the retail trade survey.



October credit card billings registered a 0.6 percent (s.a.) monthly increase. This is consistent with the 0.8 percent (s.a.) rise recorded in the Electronic Card Transactions data reported earlier. However, these

figures *include* GST. If we take the GST out of the figures (which is how the official Statistics NZ retail trade survey is reported), it implies retail spending fell by around 1.5 percent in what is likely to have been a post-GST pullback. The September retail trade data showed a surge in spending for appliances (up 14 percent) and furniture and floor covering (up 30 percent) before the GST increase came in. It won't be until we get consumer spending figures for November that a clearer picture of underlying spending trends emerge. However, **as the ANZ Roy Morgan Consumer Confidence survey for November highlighted, consumer caution appears to be continuing in the new tax environment.** While consumers continue to believe things can only get better in future, they remain coy over their current prospects.



Last week's speech by RBNZ Governor Bollard provided a further update on the RBNZ's current thinking. The aftershocks from the global financial crisis are still reverberating around the world, with the process of resolving global and domestic imbalances having some time to run. The necessary rebalancing of the New Zealand economy towards being more earnings-centric "is progressing, but very slowly". "Recovery to economic normality can be a slow, fragile, uncertain process with temporary setbacks and aftershocks". Despite the speech highlighting the usual headwinds, it affirmed a positive medium-term message, with New Zealand well placed to benefit from more global demand for protein. The short-term implications are a little less certain, with last week's *globalDairyTrade* online auction showing continued consolidation of whole milk power prices at around US \$3,500 per tonne.

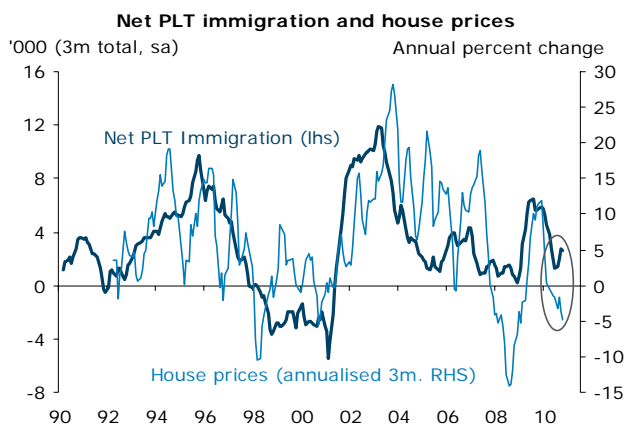
With our comparative advantage in food production, climatic factors and disease outbreaks continue to significantly affect the New Zealand economy. The impact of the wet winter and start of spring are now starting to show

ECONOMIC OVERVIEW

and will weigh on the New Zealand economy over the next 12 months. NIWA statistics note that this year's winter was wetter than usual, with cooler than average temperatures for parts of Canterbury and South Otago, with a number of large snowfalls. This culminated in higher than usual stock losses for most regions over the winter period, with estimated lamb losses currently in the region of 1 million. These numbers could significantly undercount stock losses, which could be two to three times as large. Assuming lamb losses in the region of 3 million, the total loss in export revenue would be approaching \$400m, assuming an export price of \$130 per lamb. Add to this the impact of the wet winter on dairy production, and the potential \$150-200m loss in Kiwifruit export earnings from Psa (outlined in last week's Market Focus), and the short-term outlook for primary sector incomes is likely to disappoint the optimists. The joint government and kiwifruit industry \$50m assistance package will be welcomed by growers, but with Psa now spreading throughout the country, it will not fully cover total losses.

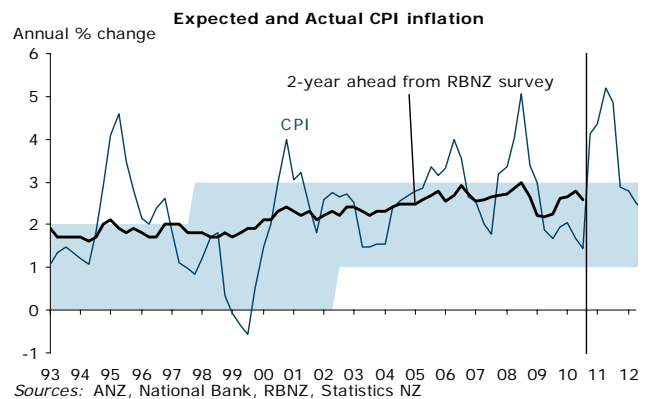
This morning's external migration data suggests that the NZ economy continues to obtain support from population inflows.

However, with the domestic housing market more sensitive to permanent and long-term (PLT) departures, the strengthening trend in departures are another headwind for the domestic housing market.



The rest of the week is quiet on the domestic data front. **Tomorrow's RBNZ survey of expectations for Q4** is expected to show medium-term inflationary pressure remaining contained with downside risk to the Q3 2-year-ahead CPI forecast of 2.57 percent. However, as our analysis of domestic data surprises on page 4 suggests, upward surprises have been predominant since the start of the month so we could be at a turning point. Either that or the short-term pessimism that seems to be weighing on the RBNZ is

spreading to market sector analysts.



RECENT LOCAL DATA

- **SNZ Retail Trade Survey - 2010Q3.** Total and core values increased by 1.6 percent (s.a.) in the September month. Core retail sales volumes increased by 0.9 percent in 2010Q3, with total retail volumes rising by 0.7 percent.
- **globalDairyTrade online auction.** Whole milk powder prices eased 1.4 percent to US \$3,447 per tonne. USD prices were unchanged on 12 months earlier, with NZD prices 6.3 percent lower.
- **NBNZ Regional Trends – Q3 2010.** The National Bank measure of nationwide activity eased by 0.2 percent in Q3. Activity rose in eight regions but declined in five.
- **SNZ Producers Price Index – 2010Q3.** Input prices rose by 0.7 percent (3.8 percent y/y), with output prices increasing by 1.2 percent (4.0 percent y/y). Increases for agricultural components dominated.
- **SNZ Capital Goods Price Index – 2010Q3.** A 0.4 percent increase in residential building costs was the key factor contributing to a 0.4 percent increase in capital good prices (+0.2 percent y/y).
- **ANZ Roy Morgan Consumer Confidence – November.** Headline consumer confidence rose 1 point to 114.5. The Current Conditions index rose a point to 93.4, whereas the Future Expectations component lifted from 127.9 to 128.6.
- **RBNZ Credit Card Statistics – October.** Billings increased by 0.6 percent s.a. (+4.6 percent y/y).
- **SNZ International Travel and Migration – October.** A net inflow of 680 persons (s.a.) was recorded, with net annual immigration slowing to 12,610. Overseas visitor arrivals fell 2.0 percent (s.a.).

NZ DATA SURPRISE INDEX

SUMMARY

This week we introduce our New Zealand Data Surprise Index, which is designed to summarise the evolution of the local dataflow relative to market expectations. Data surprises are standardised and then weighted to illustrate the estimated impact of the surprise on medium-term inflationary pressure, which is the monetary policy focus of the RBNZ. Our index shows surprises tend to move in strings, with a strong run of domestic data surprises leading up to the RBNZ tightening in the June MPS. Domestic data has generally surprised on the downside since then, although some improvement in the local data has been evident in November. It is too soon to tell if the economy is at a turning point and we will continue to closely monitor the local data over the next few weeks.

WHAT IS OUR DATA SURPRISE INDEX?

Our Data Surprise Index is designed to summarise the impact of individual New Zealand data surprises on medium-term inflationary pressure. As such, a wide range of domestic data is used in our data surprise index. These include the “hard” data relating to current estimates of economic activity and inflation as well as the “soft” leading information provided by a range of measures of consumer and business sentiment. The latter are extremely important, as they have a key impact on the RBNZ’s assessment of the economy.

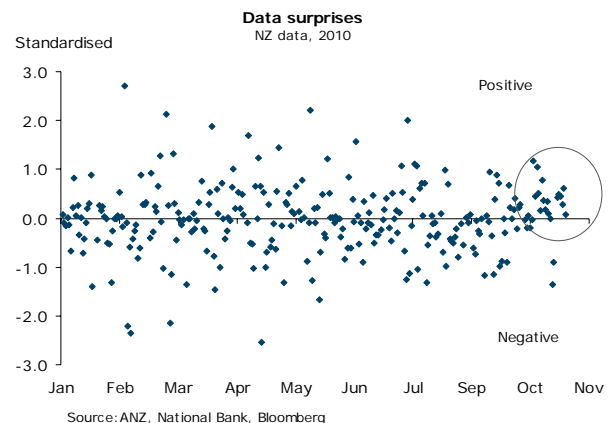
Our data surprise index is made up of a sequence of surprises on individual pieces of data, where the “surprise” is measured as the difference between the actual data outturn and the median market expectation. This is supplemented with other data that the RBNZ and the analyst community tend to monitor but for which analyst polls are not conducted.¹ Typically this includes business and consumer confidence releases that tend to provide leading information on the activity and inflation outlook.² The end of this article provides a glossary of the data releases used.

Our surprise index takes into account the volatility of the data. Some data tends to contain significantly more volatility, which can make it difficult to interpret the “economic signal” from the “noise” sometimes evident in particular data surprises. We standardise the data “surprise”, by

¹ Bloomberg conduct forecast polls for GDP, retail trade, overseas merchandise trade, CPI, HLFIS, QES, PPI, BOP and OTI (see appendix for definition).

² We proxy an “expectation” for these data by either using their post 1992 average or the last observation.

expressing it as a proportion of the post 1992 historical standard deviation of the data in question. The figure below summarises standardised individual data surprises since the start of the year. There is no particular pattern, with most data outturns typically within one standard deviation of expectations. The balance of positive and negative data surprises appears to be broadly offsetting, although more data in recent months has tended to surprise on the upside, as shown by more dots being above the x-axis.



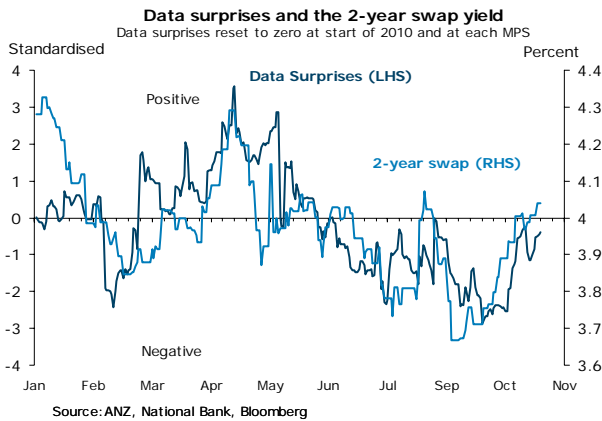
All data is not created equal. A significant data surprise on GDP or CPI inflation is likely to have greater implications for the degree of inflationary pressure than “second-tier” data examining trends in a particular part of the economy. As our focus is on highlighting the medium-term implications from data surprises, we place proportionately more weight on some of the forward looking “soft” data. We assign a weight of between 0 and 1 to each type of data, with more “influential” data assigned higher weights. This process is a mix of art and science.

The weighted individual data surprises are then cumulated to form an index, which summarises the level and broad direction of the data surprises over time. An index level above zero indicates that the medium-term impact of data surprises has been balanced to the upside relative to the reference point. An upward sloping data surprise index suggests that recent data surprises have tended to be positive, whereas a downwardly sloped index shows negative data surprises predominating.

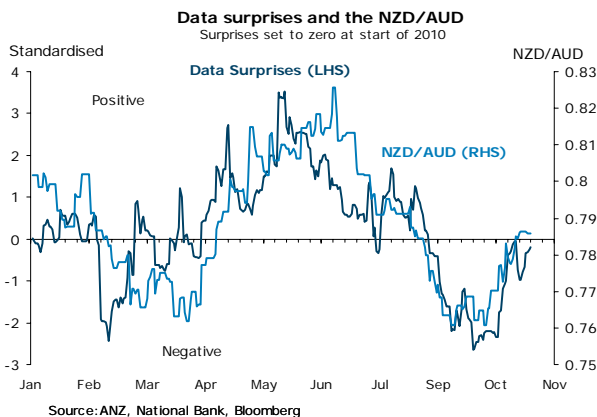
The figure overleaf shows the evolution of domestic data surprises since the start of the year. The dataflow tends to move in strings, with data tending to undershoot and then overshoot market expectations at various stages. From around mid-February till May domestic data tended

NZ DATA SURPRISE INDEX

to surprise on the upside, with the index rising strongly. Subsequent data releases have tended to undershoot expectations, particularly between the June and September MPS. The data “news” since the September MPS was initially weaker but has been improving over the last few weeks.



We can also compare our data surprise index with the evolution of domestic wholesale interest rates (see figure above). There is a close correlation between the data surprise index with the 2-year swap interest rate. A correlation coefficient of 0.62 is observed for all 2010 data surprises, with the correlation having strengthened since the March MPS (0.72). Determining the direction of causality is not straightforward, with the 2-year swap interest rate likely to be affected by a range of factors as well as domestic data surprises. Statistical tests do not reveal a lead from the data surprise index to the 2-year swap rate, but this is not surprising, given that interest rate expectations tend to respond very quickly to data surprises.



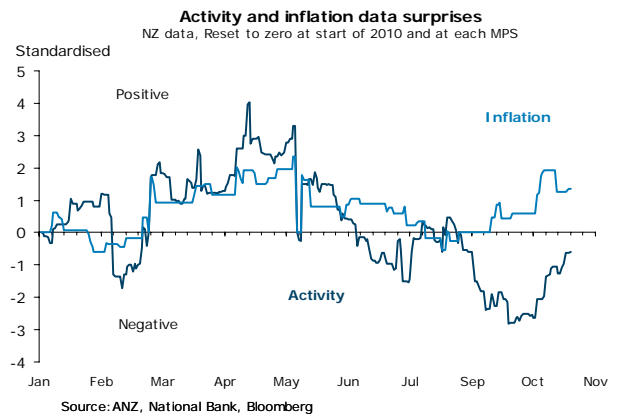
When we examined the relationship of NZD exchange rates with our data surprise index, results suggested a much stronger correlation with the NZD/AUD (correlation coefficient of 0.72

since January 2010 and 0.77 since the March MPS) than with any other NZD bilateral.

The stronger correlation with the NZD/AUD suggests this cross tends to be more driven by the domestic dataflow, whereas the NZD/USD has tended to have been driven by other factors, which are beyond our control. The chart also suggests a small lead from data surprises to the NZD/AUD, although this tends to vary over time.

EXTENSIONS

It is possible to divide the dataflow into “activity” and “price” components to see whether the direction of data surprises is commonplace or it is attributable to strength or weakness in activity or inflation outturns. The figure below shows that the direction of surprise was the same for activity and price measures up until the June MPS. In June and July domestic activity data tended to surprise on the downside, whereas data surprises on price measures have been less one-sided. **Since the September MPS upside surprises have been more evident on prices whereas activity data has generally disappointed**, despite some recent improvement.



The division we use is fairly arbitrary, with some data surprises (e.g. wages) having implications for both activity and inflation. Nevertheless, this exercise is useful for illustrating whether data surprises have been commonplace across various groups of data or if they are more specific in nature.

WHERE TO FROM HERE?

Work is at a preliminary stage, and we intend to build up a more lengthy time series of data surprises. However, we are mindful of data limitations. Our measure of market expectation is typically the median of an analyst poll. Other metrics (including the spread of analyst forecasts)

NZ DATA SURPRISE INDEX

as well as the analyst probability around their central forecast would provide a more robust measure of data surprise, but practicality limits us here.

The data surprises captured here are relative to market expectations. **Arguably, what matters more for domestic interest rate settings are data surprises relative to the RBNZ's expectations.** Although the RBNZ publish projections in their MPS, these are only a small subset of the domestic indicators closely monitored by the RBNZ.

We will also experiment with assigning different weights to the data, with a view to matching these up with the tone inherent in the quarterly RBNZ Monetary Policy Statements. There is also a case for extending the surprise index to include a more comprehensive range of information. We plan to keep making improvements and will provide regular updates in our *Market Focus*.

APPENDIX: DATA USED TO COMPILE OUR DATA SURPRISE INDEX

Quarterly:

Gross Domestic Product, Balance of Payments, Consumers Price Index, Household Labour Force Survey, Quarterly Employment Survey, Labour Cost Index, Economic Survey of Manufacturing, Overseas Trade Indexes, Producers Price Index, NZIER Quarterly Survey of Business Opinion, Westpac McDermott Miller Consumer Confidence, RBNZ Survey of Expectations.

Monthly:

Overseas Merchandise Trade, Retail Trade Survey, Residential Building Consents, External Migration, ANZ Commodity Price Index, National Bank Business Outlook, Food Price Index, REINZ house sales, REINZ house price index, ANZ-Roy Morgan Consumer Confidence, BNZ-Business Manufacturing PMI, Electronic Card Transactions.

INTEREST RATE STRATEGY

SUMMARY

Global interest rates have been volatile over the past week, and this has been felt in New Zealand. Swap rates are significantly higher as a result, particularly at the long end of the curve, with the steepening the curve the most notable development. Although the long end will continue to be influenced by global developments, there's a limit to how much higher key bellwethers like the 2yr swap can go. Although long end swaps may continue moving higher with US rates, solid demand for NZGS at weekly tenders will limit the impact, and see swap spreads normalise.

MARKET THEMES

- Short end rates remain elevated as the market digests flows. The rift between market pricing and RBNZ rhetoric is now so large that the short end will likely top out soon, particularly given a light domestic data schedule this week.
- We do not expect the NZ bond market to be a victim of the global inflation trade. US long bonds will come under pressure as QE unfolds, but the RBNZ's sole mandate will see NZ emerge as a relative safe haven.

REVIEW AND OUTLOOK

The tone of the local rates market has shifted markedly over the past week, with 2yr swaps up around 10bps and 10yr swaps up around 25bps. That rates are higher is not really a mystery – after all – it's been one way traffic in the US bond market ever since QE was announced. But **what is mildly surprising has been the degree to which this has spilt over into the short end of the curve**. Has the market forgotten all about the dovish tone of RBNZ Governor Bollard's comments at the FSR two weeks ago? We doubt it; **rather the market is just digesting flows**. Once the dust settles, as we approach the December MPS and as the market contemplates the line up of data between here and Christmas, yields are likely to retreat somewhat, especially at the short end, where the 2yr swap is some 25bps above levels prevailing over October.

The back end of the yield curve looks to be stuck between a rock and a hard place. The rock is the RBNZ's hard fought and won inflation credibility. The hard place is the outlook for global inflation. Inflation is rising in Asia (especially in food in China – and authorities are starting to take action), fuelled by QE in the US. But as we look to the future, we do not expect New Zealand to be the victim of the inflation trade. **Rising global inflation risks and rising global yields will have an impact here – but NZ will be insulated somewhat by the RBNZ's singular**

focus (on price stability). Indeed, NZ is already regarded as a relative safe haven (foreigners now own a record amount of NZGS bonds, with total holdings up 43% this year).

PREFERRED BORROWING STRATEGIES

Regular readers will be aware of our long-held view that NZ rates were being held artificially low by the prospect of QE, particularly given supply side inflation pressures emerging in Asia, and our expectations of above-consensus GDP growth in 2011. Ideally, borrowers will have increased their levels of term cover prior to QE, as we favoured. However, if cover levels remain light, we do not advocate "chasing" the market, particularly at the short end, where rates seem way too high given RBNZ comments and the tone of upcoming data. Aggressive risk managers may even use the steepening of the curve as an opportunity to shorten the duration of cover, with a view to adding more cover later should rates move lower and/or the curve flattens. Forward starting yields certainly look extremely topy at current levels.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↓	RBNZ comments dovish.
NZ data	↔/↑	Retail sales strong last week on pre-GST spend-up.
Fed Funds / front end	↔	Fed staunchly defending QE.
RBA	↔/↓	On holiday after this month's pre-emptive hike.
US 10 year	↔/↑	Inflation fears intense.
NZ swap curve	↔/↑	Can a bull steepening and a bear steepening happen at the same time? Maybe.
Flow	↔/↓	Market stretched. Pay flow likely to abate this week.
Technicals	↔/↑	2yr break of 4% not great.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 9-Dec-10	+0	+0
Thu 27-Jan-11	+3	+4
Thu 10-Mar-11	+12	+12
Thu 28-Apr-11	+26	+33
Thu 9-Jun-11	+40	+43
Thu 28-Jul-11	+52	+57
Thu 15-Sep-11	+65	+68

TRADING THEMES WE FAVOUR AT PRESENT

We expect the curve to undergo a bull steepening in the lead up to the MPS as the short end adjusts to RBNZ rhetoric. This may be supported by a bear steepening if US yields continue to grind higher, which remains a risk. Forward yields look way too high (the 5yr/5yr is at 6.40%, above Australia). This will attract attention.

CURRENCY STRATEGY

SUMMARY

The USD strength early last week faded despite a strong Philly Fed reading. Currency markets continue to display tension between mixed US data and concerns about European economic instability. Ireland may have thrown in the towel and asked for assistance, but the market will quickly start to focus on the next weakest link among the peripherals. Meanwhile the NZD continues to be squeezed between two giants – the US and China. Expect this week to be very quiet with little data and the Thanksgiving holiday in the US. The key risk is if the PBOC decides to follow up their increase of the reserve requirement ratio with a hike in their benchmark interest rate.

MARKET THEMES

- NZD movement continues to be a function of external rather than internal forces.
- Most commodity prices remain under pressure.
- Ireland bailout only a short term positive for risk assets.
- Expect hard policy initiatives from emerging market economies to stem inflationary pressures.

REVIEW AND OUTLOOK

The USD correction appears complete in the short term. While we expected a move for EUR/USD into the mid 1.33s, it seems that 1.3430 may have been far enough for now. However, news that Ireland has requested financial assistance could undermine the EUR this week, despite a bit of a relief rally at the end of last week as it became clear that the EU/IMF was going to provide a bailout whether Ireland asked for it or not. Overall, expect a combination of mixed data from the US (some strong activity data but weak inflation reads) and concerns about the state of PIGS finances to cause tension in currency markets.

With no data out this week, NZD movements will be an outworking of movements in other currencies. From a technical perspective expect resistance at 0.7800 and support at 0.7670. **The AUD does not seem to enjoy the altitude above 1.0000 against the USD.** While economic fundamentals appear to continue to support the AUD, market positioning is weighing on that currency. That is, the positive story is mature and well priced. Indeed, speculative positioning continues to be pared back in AUD though the currency has managed to hold up well given the selling from this quarter over the past month.

Emerging markets are becoming increasingly concerned about inflation as a result of the leakage of liquidity from QE2 into those markets. The currency markets will be watching closely for signs of hard policy shifts to shut down excessive capital inflows into emerging markets. Indeed the currency war appears to be far from over. The response to this from the emerging market authorities could surprise in its approach and intensity. With inflation becoming a dominant threat in Asia, the PBOC's moves over the weekend to increase the reserve requirement ratio by 50bps won't be the last step. Expect a follow up in the form of a hike in official interest rates soon, which will be seen as a negative for risk.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Close to fair value.
Yield	↔	Yields stable for now.
Commodities	↓	Soft commodities have turned as the bubble appears to have burst.
Partial indicators	↔	Trans-Tasman data releases slightly more balanced.
Technicals	↑	Now in uptrend heading for 80 cents.
Sentiment	↑	Swung in favour of NZD.
Other	↑	At historically low levels.
On balance	↑	Trending higher 0.7770-0.7970.

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	↑	FOMC happy with weaker USD.
Commodities	↓	Soft commodities bubble appears to have burst.
Risk aversion	↔	Equities still relevant.
Partial indicators	↔	NZ data showing slight improvement.
Technicals	↔	Experiencing a correction.
AUD	↑	Everyone bullish AUD.
Sentiment	↔	Softer tone due to external factors.
Other	↔/↓	Is USD corrective move underway?
On balance	↔	Remains supported still but will not be immune to wider USD moves.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
22-Nov	NZ	New Zealand Net Migration SA - OCT	- -	1070	10:45
23-Nov	US	Chicago Fed Nat Activity Index - OCT	-0.24	-0.58	02:30
	EC	Euro-Zone Consumer Confidence - NOV A	-11	-11	04:00
	NZ	RBNZ 2yr Inflation Expectation - 4Q	- -	- -	15:00
	GE	GfK Consumer Confidence Survey - DEC	5.1	4.9	20:00
	GE	GDP nsa (YoY) - 3Q F	3.90%	3.90%	20:00
	GE	GDP s.a. (QOQ) - 3Q F	0.70%	0.70%	20:00
	GE	PMI Manufacturing - NOV A	56.8	56.6	21:30
	GE	PMI Services - NOV A	55.8	56	21:30
	EC	PMI Composite - NOV A	53.6	53.8	22:00
	EC	PMI Manufacturing - NOV A	54.4	54.6	22:00
	EC	PMI Services - NOV A	53.2	53.3	22:00
	UK	BBA Loans for House Purchase - OCT	31000	31104	22:30
24-Nov	US	GDP QoQ (Annualized) - 3Q S	2.40%	2.00%	02:30
	US	Personal Consumption - 3Q S	2.50%	2.60%	02:30
	US	GDP Price Index - 3Q S	2.30%	2.30%	02:30
	US	Core PCE QoQ - 3Q S	0.80%	0.80%	02:30
	US	Existing Home Sales MoM - OCT	-1.10%	10.00%	04:00
	US	Richmond Fed Manufact. Index - NOV	7	5	04:00
	US	Minutes from Nov 2-3 FOMC Meeting			08:00
	AU	Conference Board Leading Index - SEP	- -	0.20%	12:00
	AU	CBAHIA House Affordability - 3Q	- -	108.3	13:00
	AU	Construction Work Done - 3Q	2.00%	3.50%	13:30
	JN	Nationwide Dept. Sales (YoY) - OCT	- -	-5.20%	18:30
	GE	IFO - Business Climate - NOV	107.5	107.6	22:00
	GE	IFO - Current Assessment - NOV	110.4	110.2	22:00
	GE	IFO - Expectations - NOV	104.7	105.1	22:00
	UK	GDP (QoQ) - 3Q P	0.80%	0.80%	22:30
	UK	GDP (YoY) - 3Q P	2.80%	2.80%	22:30
	UK	Index of Services (MoM) - SEP	0.50%	0.60%	22:30
	UK	Index of Services (3mth/3mth) - SEP	0.60%	0.30%	22:30
	EC	Industrial New Orders NSA (YoY) - SEP	15.30%	24.40%	23:00
	EC	Industrial New Orders SA (MoM) - SEP	-2.50%	5.30%	23:00
25-Nov	US	Durable Goods Orders - OCT	0.00%	3.30%	02:30
	US	Durables Ex Transportation - OCT	0.60%	-0.80%	02:30
	US	Cap Goods Orders Nondef Ex Air - OCT	1.00%	-0.60%	02:30
	US	Cap Goods Ship Nondef Ex Air - OCT	- -	0.40%	02:30
	US	Personal Income - OCT	0.40%	-0.10%	02:30
	US	Personal Spending - OCT	0.50%	0.20%	02:30
	US	PCE Deflator (YoY) - OCT	1.30%	1.40%	02:30
	US	PCE Core (MoM) - OCT	0.00%	0.00%	02:30
	US	PCE Core (YoY) - OCT	1.00%	1.20%	02:30
	US	Initial Jobless Claims - Nov 20	435K	439K	02:30
	US	Continuing Claims - Nov 13	4275K	4295K	02:30
	US	U. of Michigan Confidence - NOV F	69.5	69.3	03:55
	US	House Price Index MoM - SEP	0.00%	0.40%	04:00
	US	House Price Purchase Index QoQ - 3Q	-1.10%	0.90%	04:00
	US	New Home Sales - OCT	315K	307K	04:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
25-Nov	JN	Merchnds Trade Balance Total - OCT	¥871.1B	¥797.0B	12:50
	AU	Private Capital Expenditure - 3Q	3.10%	-4.00%	13:30
26-Nov	JN	Natl CPI YoY - OCT	0.20%	-0.60%	12:30
	JN	Natl CPI Ex Food, Energy YoY - OCT	-0.90%	-1.50%	12:30
	CH	MNI Business Condition Survey - NOV	- -	65.03	14:35
	GE	Import Price Index (MoM) - OCT	0.00%	0.30%	20:00
	GE	Import Price Index (YoY) - OCT	9.40%	9.90%	20:00
	EC	Euro-Zone M3 s.a. 3 mth ave. - OCT	1.10%	0.80%	22:00
	EC	Euro-Zone M3 s.a. (YoY) - OCT	1.30%	1.00%	22:00
25-Nov	JN	Merchnds Trade Balance Total - OCT	¥871.1B	¥797.0B	12:50

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 four weeks: Last week's data confirmed a last minute boost to retail spending ahead of the October increase in GST. Retail data in the new GST environment suggests a weakening in retail values, with October consumer confidence still highlighting an expectation of better times ahead. This week's data will provide an insight on whether emerging medium-term inflationary pressures are expected to remain contained. We continue to watch the soft gauges for signs of direction, and are encouraged by the improving tone of the October National Bank Business Outlook survey and historically high export commodity prices. However, the impact of a high NZD on sentiment is one to watch.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 23 Nov (3:00pm)	RBNZ Survey of Expectations – Q4	Anchored	Two-year-ahead expected inflation is expected to remain close to the 2.6 percent registered in the Q3 survey.
Mon 29 Nov (10:45am)	Overseas Merchandise Trade - Oct	Growing annual surplus	We expect another monthly deficit of about \$400m. The annual trade surplus is forecast to climb above \$1bn.
Mon 29 Nov (3:00pm)	National Bank Business Outlook	- -	- -
Tue 30 Nov (10:45am)	Building Consents – Oct	Up	Support from earthquake related alterations and additions. Low house sales figures suggest weakness in residential issuance.
Wed 1 Dec (6:00am)	<i>globalDairyTrade</i> online auction	Holding	Contract prices for whole milk powder are expected to average around US \$3,500 per tonne.
Wed 1 Dec (3:00pm)	ANZ Commodity Price Index - Nov	- -	- -
Tue 7 Dec (10:45am)	Wholesale Trade Survey- Q3	Rising	We expect a 2 percent increase in operating income underpinned by higher primary wholesale trade. A more sedate increase is expected from wholesale volumes.
Wed 8 Dec (10:45am)	Work Put in Place- Q3	Lower	We expect up to a 5 percent fall in the volume of residential work, to be partly offset by higher non-residential volumes.
Wed 8 Dec (10:45am)	Economic Survey of Manufacturing – Q3	Rebound	A 3 percent rebound in ex-primary manufacturing volumes is expected, with a small increase for primary manufacturing.
Thur 9 Dec (9:00am)	December MPS	On hold	The RBNZ are expected to affirm their downbeat message for domestic spending. However, they are likely to reiterate that the OCR is still going up "at some stage".
Thur 9 Dec (10:45am)	Electronic Card Transactions – Nov	Crawling up	We expect a small increase in retail related ECT spending.
Fri 9 Dec (10:45am)	Overseas Trade Indexes- Q3	Purchasing power rising	The terms of trade will rise by around 3 percent. A larger fall in export volumes is expected due to weaker primary sector exports. Rising capital good imports are a positive sign for 2011.
Mon 13 Dec (10:45am)	Food Price Index - Nov	Rising	We expect a small increase. Lower prices for fresh fruit and vegetables to be offset by higher prices for meat and dairy.
Tue 14 Dec (10:00am)	REINZ Housing Market Data - Nov	Weak	A small increase in sales from historically low levels is expected. Prices are expected to continue their downward trend.
Tue 14 Dec	Half Year Economic and Fiscal Update	Hard yards	More of the budget deficit appears structural implying a harder road ahead to return the public finances to a stronger position.
Tue 14 Dec (10:45am)	Retail Trade Survey - Oct	Post GST blues	We expect a monthly fall in values of around 1.5 percent.
Wed 15 Dec (6:00am)	<i>globalDairyTrade</i> online auction	Holding	Contract prices for whole milk powder are expected to average around US \$3,500 per tonne.
On Balance			Data for Q3 still looking subdued but we will be looking for an improving tone over Q4.

KEY FORECASTS AND RATES

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
GDP (% qoq)	0.2	1.0	0.5	0.2	0.4	0.5	1.2	1.4	1.6	0.5
GDP (% yoy)	-1.6	0.5	1.9	1.9	2.1	1.6	2.3	3.5	4.8	4.8
CPI (% qoq)	1.3	-0.2	0.4	0.2	1.1	2.4	0.6	1.0	0.8	0.5
CPI (% yoy)	1.7	2.0	2.0	1.7	1.5	4.1	4.4	5.2	4.9	2.9
Employment (% qoq)	-0.8	0.0	1.0	-0.2	1.0	0.3	0.5	0.7	0.6	0.4
Employment (% yoy)	-1.8	-2.4	-0.1	0.0	1.8	2.1	1.7	2.5	2.1	2.2
Unemployment Rate (% sa)	6.5	7.1	6.0	6.9	6.4	6.3	6.2	5.8	5.6	5.5
Current Account (% GDP)	-3.2	-2.8	-2.4	-3.0	-3.7	-3.0	-3.1	-3.0	-3.1	-3.1
Terms of Trade (% qoq)	-1.6	5.8	6.1	2.0	3.0	0.9	-0.6	-0.6	0.0	-0.9
Terms of Trade (% yoy)	-14.1	-8.2	0.1	12.7	17.9	12.4	5.4	2.6	-0.3	-2.1

	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10
Retail sales (% mom)	-0.6	0.5	-0.4	0.4	1.0	-0.5	0.0	1.6	..	..
Retail sales (% yoy)	2.4	4.4	2.7	1.9	3.4	2.2	2.3	4.4	..	..
Credit Card Billings (% mom)	-0.2	0.9	-1.6	1.9	1.0	-1.1	0.8	0.9	0.6	..
Credit Card Billings (% yoy)	1.1	5.2	0.8	3.5	4.4	2.8	2.1	4.2	4.6	..
Car registrations (% mom)	0.6	4.9	3.1	-4.0	5.6	-6.4	-0.2	2.3	-4.1	..
Car registrations (% yoy)	31.4	31.7	40.5	30.5	35.8	16.0	19.0	19.2	9.4	..
Building consents (% mom)	6.6	0.1	8.4	-10.1	2.0	3.0	-17.9	0.6	..	..
Building consents (% yoy)	29.9	32.7	32.6	11.5	26.6	26.1	-3.1	-9.5	..	..
REINZ House Price (% yoy)	6.1	7.6	4.7	3.7	3.7	2.6	0.9	0.0	-1.4	..
Household Lending Growth (% mom)	0.2	0.0	0.2	0.2	0.2	0.2	0.1	0.2	..	..
Household Lending Growth (% yoy)	2.9	2.9	2.8	2.6	2.6	2.5	2.3	2.3	..	..
ANZ Roy Morgan Consumer Confidence	123.6	121.8	121.9	126.0	122.0	115.6	116.3	116.4	113.6	114.5
NBNZ Business Confidence	50.1	42.5	49.5	48.2	40.2	27.9	16.4	13.5	23.7	..
NBNZ Own Activity Outlook	41.9	38.6	43.0	45.3	38.5	32.4	25.7	26.7	30.5	..
Trade Balance (\$m)	328	608	660	770	221	-182	-413	-532	..	..
Trade Balance (\$m ann)	-330	-160	178	41	593	589	892	921	..	..
ANZ World Commodity Price Index (% mom)	3.7	1.8	5.1	1.2	-1.6	-0.8	-1.4	2.8	3.5	..
ANZ World Commodity Price Index (% yoy)	48.6	49.5	53.2	51.8	50.1	47.3	38.6	32.9	31.4	..
Net migration (sa)	1000	950	750	330	230	900	850	1040	680	..
Net migration (annual)	21618	20973	19954	17967	16504	15221	14507	13914	12610	..

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

KEY MARKET FORECASTS AND RATES

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Sep-10	Oct-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZD/USD	0.734	0.752	0.775	0.72	0.72	0.73	0.74	0.72	0.71	0.70
NZD/AUD	0.759	0.770	0.784	0.76	0.77	0.75	0.74	0.74	0.74	0.74
NZD/EUR	0.539	0.540	0.565	0.51	0.51	0.52	0.51	0.51	0.51	0.51
NZD/JPY	61.33	62.38	63.92	57.6	56.2	55.1	55.5	56.5	56.8	57.4
NZD/GBP	0.467	0.474	0.480	0.46	0.45	0.46	0.46	0.45	0.44	0.44
NZ\$ TWI	66.3	67.0	69.0	64.1	63.7	64.1	63.8	63.5	63.0	63.0
INTEREST RATES	Sep-10	Oct-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZ OCR	3.00	3.00	3.00	3.00	3.25	3.75	4.00	4.25	4.75	5.25
NZ 90 day bill	3.17	3.19	3.18	3.20	3.70	4.20	4.30	4.70	5.20	5.50
NZ 10-yr bond	5.01	5.24	5.42	5.50	5.60	5.90	5.90	5.90	5.80	5.80
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
US 3-mth	0.29	0.29	0.28	0.35	0.35	0.35	0.35	0.35	0.35	0.85
AU Cash Rate	4.50	4.50	4.75	4.75	4.75	5.00	5.25	5.50	5.75	5.75
AU 3-mth	5.01	4.87	5.06	5.00	5.10	5.20	5.50	5.70	6.00	6.00

	19 Oct	15 Nov	16 Nov	17 Nov	18 Nov	19 Nov
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.18	3.16	3.17	3.17	3.17	3.17
NZGB 11/11	3.89	4.18	4.20	4.21	4.26	4.27
NZGB 04/13	4.37	4.68	4.71	4.73	4.82	4.86
NZGB 12/17	4.98	5.37	5.42	5.42	5.49	5.52
NZGB 05/21	5.09	5.45	5.51	5.52	5.63	5.66
2 year swap	3.77	3.95	3.95	3.95	4.01	4.02
5 year swap	4.36	4.64	4.69	4.68	4.80	4.84
RBNZ TWI	67.0	68.8	69.2	69.1	69.3	69.5
NZD/USD	0.7557	0.7707	0.7735	0.7680	0.7734	0.7765
NZD/AUD	0.7643	0.7818	0.7842	0.7855	0.7860	0.7865
NZD/JPY	61.48	63.71	64.27	64.00	64.40	64.80
NZD/GBP	0.4757	0.4777	0.4817	0.4836	0.4858	0.4846
NZD/EUR	0.5422	0.5625	0.5683	0.5683	0.5691	0.5696
AUD/USD	0.9887	0.9858	0.9863	0.9777	0.9840	0.9873
EUR/USD	1.3937	1.3702	1.3611	1.3513	1.3589	1.3632
USD/JPY	81.36	82.66	83.09	83.33	83.27	83.45
GBP/USD	1.5885	1.6134	1.6058	1.5881	1.5920	1.6025
Oil (US\$/bbl)	83.06	84.89	84.88	80.43	80.43	81.88
Gold (US\$/oz)	1367.75	1367.68	1360.30	1335.05	1350.03	1351.00
Electricity (Haywards)	1.14	5.65	4.17	4.92	5.89	5.69
Milk futures (US\$/contract)	117	117	117	117	118	118
Baltic Dry Freight Index	2744	2261	2219	2188	2164	2155

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.
- ING (NZ) Holdings Limited (ING), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ING and its related companies, including ING (NZ) Limited, 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;

IMPORTANT NOTICE

- 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.

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