

NEW ZEALAND ECONOMICS MARKET FOCUS

10 October 2011

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RELATIVE RESILIENCE

ECONOMIC OVERVIEW

The Sword of Damocles hangs over the New Zealand economy. But while we can see New Zealand's leading gauges or timely barometers starting to turn – a natural dynamic given the global scene, the story remains one of relative resilience. We use the term "relative", as key trading partners are showing weakness and typically New Zealand turns sharply in such circumstances, a reflection of our sensitivity to global developments. We expect the pattern of relative resilience to continue.

RURAL WRAP

The 2011–12 season is off to a solid start. The theme this year looks like softer farm–gate prices will be offset by better production, subject to the weather gods continuing to play their part. The lift in production will not help offset the entire decline from softer prices, but will provide a soft landing for total gross revenue.

MONTHLY INFLATION GAUGE

Our Monthly Inflation Gauge was unchanged in September after a 0.4 percent decline in August. Lower prices for alcohol were influential, with the rest of the gauge increasing 0.3 percent. There were more price increases than decreases scattered throughout the gauge. Our gauge suggests a contained Q3 non-tradable CPI outturn is in prospect.

INTEREST RATE STRATEGY

Market sentiment continues to swing wildly from day to day. It felt like the end was nigh in the middle of last week, yet today there is an air of optimism about, spurred on by better US data and rebounding equity prices. But was there any substance behind the move, and is this just another flighty move? Although sentiment has improved, the volatility of it has us guarded, and we look for the RBNZ to remain on hold through till the middle of 2012.

CURRENCY STRATEGY

Market sentiment took a turn for the better last week, spurred on by the BOE's decision to embark on its version of QE2 and on ECB plans to boost liquidity. The NZD generally performed well through this, as it often does when sentiment shifts to "risk on". This looks set to extend this week. But until we see decisive political leadership any risk-on drive via hi-beta plays such as the NZD will lack clear trending momentum.

EFFECTIVE EXCHANGE RATE UPDATE

Trading conditions improved for six of the eight groups we monitor in September, with the lower NZD a key driver. Lower commodity prices contributed to a sizeable decline in competitiveness for horticulture and crude. Despite the fall in the NZD, only three sectors have supportive effective exchange rates.

ECONOMIC OVERVIEW

SUMMARY

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THIS WEEK'S EVENTS

SNZ Electronic Card Transactions – September (Tuesday, October 11, 10:45am). A 2.0 percent increase in retail electronic card spending is expected, with core spending forecast to rise 2.2 percent.

BNZ Business NZ Manufacturing PMI – September (Thursday, October 13, 10:30am). The overall PMI is expected to ease to around 51 from 52.9 in August.

SNZ Food Price Index – September (Thursday, October 13, 10:45am). Food prices are expected to rise 0.5 percent, driven by higher meat prices.

ANZ Job Ads – September (Thursday, October 13, 1:00pm).

ANZ Consumer Confidence – October (Friday, October 14, 1:00pm).

REINZ Housing Market Report – Sep (Either Thursday/Friday, October 13/14, 10:00am). We expect a 2 percent s.a fall in sales volumes. Prices are expected to remain flat with the days to sell hovering around 40.

WHAT'S THE VIEW

We're still comfortable where the New Zealand economy is right here and now in both a cyclical and structural sense. The latter, as we get our national balance sheet in order, is a cap on the expected trend rate of growth but we foresee a reasonable rate being achieved.

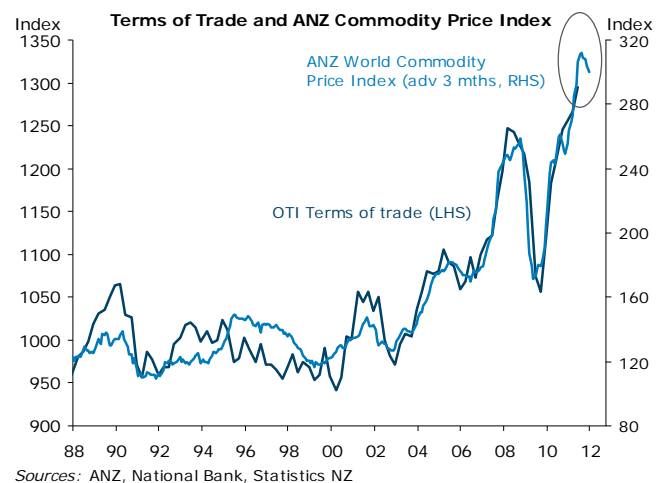
However, the Sword of Damocles continues to hang over the New Zealand economy. Global markets remain skittish. Sentiment is all over the place, with the markets gravitating from one extreme to the other. While we can see semblances of improvement or at least potential action, critical ingredients for an eventual recovery remain missing.

These include:

- the recapitalisation of European banks;
- more quantitative easing with Europe;
- an orderly Greek default (which means it is ring-fenced and other nations do not demand haircuts for bondholders);
- the ECB to cut interest rates; and
- the presentation of clear fiscal credible consolidation strategies in key nations, which means leadership as opposed to populism.

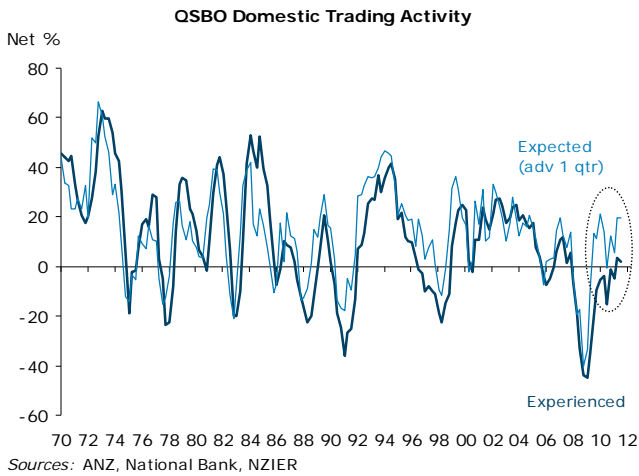
And while we wait for this to occur we need to pray nothing else untoward pops up – a big leap of faith!

Is it one way traffic? No. The tenor of US data is refusing to roll over and point to a double-dip recession. So while a recession in Europe looks assured, in the US it is not. Despite this, we still think the odds of a global recession (for the OECD anyway) are perilously close to 50 percent. Locally, we've seen an Indian Bank open for business. If this is not a sign that a free trade agreement with India is close then we don't know what is. The negotiation of bilateral free trade agreements with the likes of India promises much for a nation such as New Zealand. Looking to 2012, a NZ-India free trade agreement may act as another buffer against global events. Don't get us wrong, it's not set to deliver nirvana, and it hasn't been signed yet. However, every little bit helps.

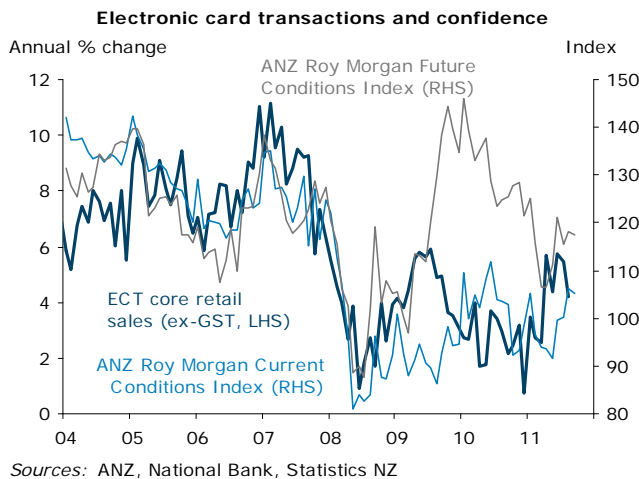


In a cyclical sense, the New Zealand economy continues to bear the brunt of global unease and volatility reasonably well. Commodity prices generally held firm in September, a remarkable achievement considering all that has been going on. Pastoral export prices remain at historically high levels, supporting our historically higher goods terms of trade and the purchasing power of NZ.Inc. As our analysis of effective exchange rates on page 10 shows, however, exporting conditions differ widely by sector.

ECONOMIC OVERVIEW



The QSBO reiterated the resilience shown by the National Bank survey. Expected domestic trading activity remains solid, with merchants counting on a sizeable Rugby World Cup boost. Architects remain bullish on the construction sector outlook but this is a 2012 story. However, it was also apparent that firms' expectations have continued to run ahead of actual reality, a dynamic apparent since the global financial crisis. Firming capacity measures and signs of growing labour shortages continue to suggest that the supply side of the economy will be an area to closely watch. Pricing data from business surveys and our Monthly Inflation Gauge suggest that inflation is not an immediate issue, although we think pricing pressures remain under the surface.

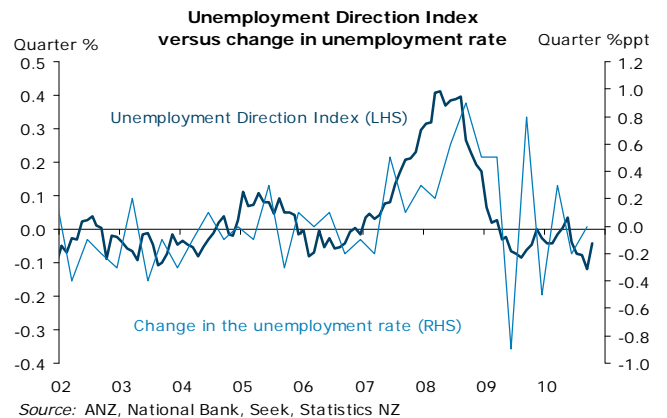


While "so far so good" appears to be the verdict of the confidence gauges, this week will provide a further test. The ANZ Consumer Confidence Survey was taken after the twin credit downgrades for New Zealand were announced and will be useful for ascertaining any impact.

September retail data is expected to show a palpable Rugby World Cup boost. While we expect about a 2 percent monthly increase for retail Electronic Card Transaction (ECT) spending, the boost is expected to be concentrated in hospitality and apparel spending. Our internal anecdotes suggests a tougher time for the wider retail sector, with consumers putting off major purchases until the end of the tournament. We fully expect to see various displacement impacts of the tournament as some spending is substituted for another. Yet with a huge influx of people for the month, more shoppers will count.

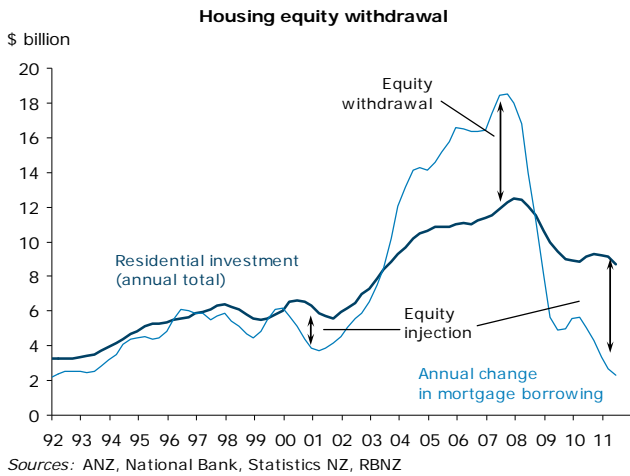
Thursday sees the release of manufacturing sector sentiment. The National Bank Business outlook showed a pullback in own activity in September, and global gauges (with the major exception of the US) have also been moving lower. The record dairy season is expected to support primary manufacturing, but prospects for manufacturers selling to European and USD markets remains challenging.

Thursday also sees the release of the September ANZ job ads. August showed a small pullback in job advertising but is still consistent with solid employment growth and a lower unemployment rate in Q3. September figures should shed some light on whether this is a blip or sign of a sustained turn.



The housing market is expected to pause for breath in September after a busy August. Distractions caused by the Rugby World Cup are likely to contribute to a small fall in sales volumes. Housing data has showed mixed messages, with the large fall in September Barfoot & Thompson sales volumes in contrast to the recovery evident in RBNZ mortgage approvals. Both are off low levels, with the latter possibly due to households shopping around for better deals.

ECONOMIC OVERVIEW

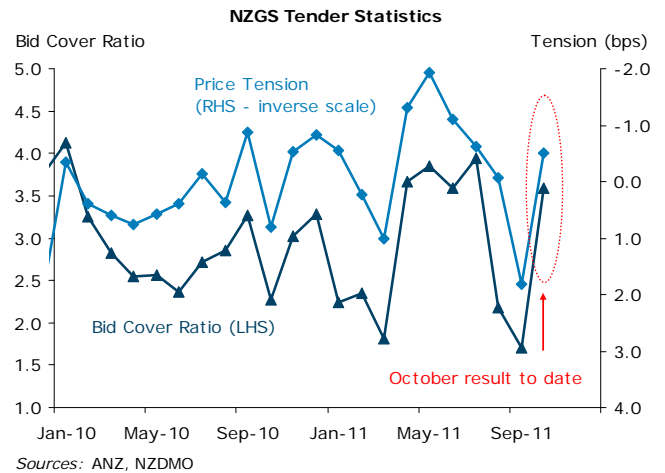


Rather than get caught up in the rip of short-term influences, the spirit of our assessment is that the household sector is undergoing a period of structural adjustment. More than \$10bn of net equity has been injected back into the housing stock since late 2008 as households have cut back on borrowing. While household debt levels have not budged in nominal terms, a fall in debt levels is difficult to achieve given the passive equity withdrawal that results when houses change hands (the seller typically has little or no debt while the buyer usually requires mortgage finance). That debt is falling relative to income is a sign that the journey is underway, but it will be a long one, with consumer spending likely to be the sacrificial lamb for some time to come.

Turning back to the global scene and potential consequences for New Zealand, we continue to eye credit spreads and investor appetites. The government and banks depend on global markets for funding, and it is vital that these markets remain open and functioning if New Zealand is to escape the worst of any potential downturn. In that regard, we note that, thankfully, demand for NZ Government Stock (NZGS) has actually improved since the twin credit rating downgrades. Optimists will take heart from this, while pessimists will point out that we need to see more than just one good tender to declare things to be fit and well. We tend to agree with both – there are grounds for optimism, but it's too early to get excited.

To be sure, we have analysed the data, and our analysis shows that demand (as measured by bid cover) fell sharply over the month of September. This follows a fall in August too, and has coincided with a deterioration in what we call "price tension" (a measure of how far away from market tender clearing yields were), as the chart below shows. Although both of these measures are technical in nature, the purpose of including them is not to bamboozle readers, but

rather to demonstrate that NZGS demand had been falling prior to the twin credit rating downgrades. What is encouraging is that things improved last week, as the chart below shows.



As we allude to in the interest rate strategy section on page 8, this could be a sign that the worst is over – a classic case of "sell the rumour, buy the fact" as the old market adage goes. We will certainly be watching developments here carefully, and although it's easy to get caught up in all the negativity, New Zealand's challenges are well known. **The Government has been upfront with regard to its quake liabilities, and we have been downgraded. By contrast, Europe now faces a string of potential downgrades, shifting the focus off NZ, which is now on a "stable" outlook with all three major credit rating agencies.**

RECENT LOCAL DATA

ANZ Commodity Price Index – September. The index eased by 1.3 percent m/m (+17.3 percent y/y). The NZD index rose 0.4 percent m/m (+5.1 percent y/y).

QSBO – 2011Q3. The general business situation eased to +13 s.a (from +31). Past domestic trading activity eased to +1.8 s.a. (+4), with expected domestic trading activity steady at +20 s.a. Expected selling prices eased to +22 (+31), with past selling prices firming to +18 (+16).

GlobalDairyTrade online auction. Dairy prices fell 1.6 percent to an average of US \$3,499/tonne. Whole milk powder prices fell 0.7 percent.

RURAL WRAP

SUMMARY

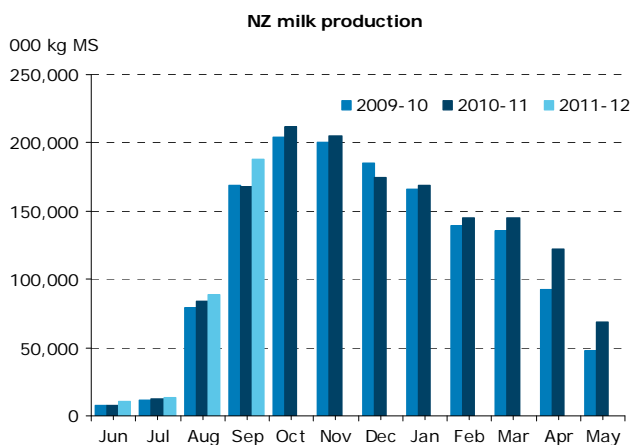
The 2011–12 season is off to a solid start. The theme this year looks like softer farm–gate prices will be offset by better production, subject to the weather gods continuing to play their part. The lift in production will not help offset the entire decline from softer prices, but will provide a soft landing for total gross revenue. Higher inflation for inputs remains a constant issue for profitability, but lower interest rates for longer helps provide an offset.

ON–FARM/ORCHARD CONDITIONS

The cold snap in the middle of August delivered snow to most parts of the country, reducing pasture quality and utilisation and checking pasture growth rates from the stellar run that started in autumn. Luckily, the weather event was signalled well in advance, which allowed farmers to act early. Since then weather conditions have been milder, with blue skies, a lift in daytime temperatures and the lengthening of sunshine hours. This caused some nervous murmurs from some regions that things were drier than usual until recent rain.

The cold snap was early enough in lambing that only 4 percent of breeding ewes were giving birth that week. Therefore, total lamb losses were minimal compared with last year. **Early docking percentages suggest the national lambing percentage could be up by 10-15 percentage points on last year's shocker.**

The combination of the very good autumn that saw dairy cows finish last season in very good condition and now fairly solid pasture conditions in the early part of this season has seen dairy production sky rocket. **All regions have shown very strong production. Year-to-date production is nearly 11 percent up on last year** and September production was even stronger heading into the peak of the season. There has even been suggestions that processing capacity may not be able to cope during the peak of the season. The most likely outcome is that not all the milk will be able to be processed into the most profitable production mix.



Sources: ANZ, National Bank, DCANZ

In the horticultural sector, the spread of PSA continues to weigh on the Kiwifruit industry. **At last count 312 orchards have PSA (10 percent of the total number of kiwifruit orchards in NZ), and the bacterial disease had been confirmed in Te Puke, Tauranga, Katikati, Whakatane and Waihi.** This is expected to reduce the national Kiwifruit crop from 110 to 95 million export trays this coming harvest. Gold Kiwifruit production is expected to be the hardest hit.

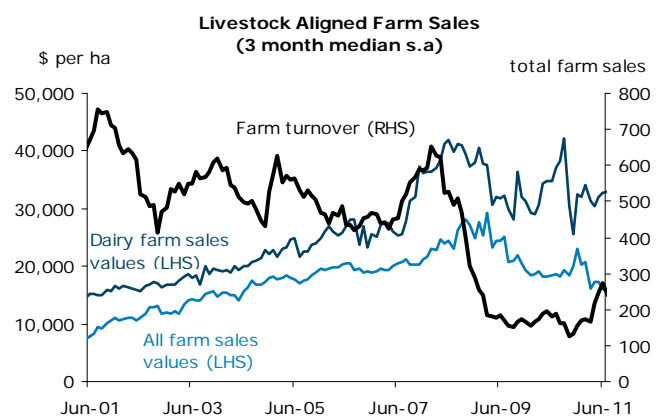
DAIRY

Fonterra announced a record total cash payout of \$7.90 for a farmer who is 100 percent share backed when releasing their 2010–11 financial results. **Fonterra also confirmed their 2011-12 forecast at \$6.75 per kg MS with a dividend of \$0.45 per share.**

With the world looking shaky and international dairy prices easing somewhat, we're taking the reaffirmation as confidence in the underlying dairy demand story.

However, our forecasts have had a slightly negative outlook at \$6.60 per kg MS for the milk price component of the payout largely due to the higher NZD. Therefore, the recent fall in the NZD should help and has come early enough in the season for Fonterra to take advantage through their currency hedging, which added approximately \$0.5 per kg MS to the 2010–11 milk payout.

The cautious optimism from better financial and on–farm conditions has been reflected in farm sales. The turnover of livestock aligned land has increased to 58 percent of the 10-year average, compared with 37 percent this time last year. A lot of the reported activity has been for dairy support, or possible future conversion.



Sources: ANZ, National Bank, REINZ

The increase in the turnover of farmland has also been reflected in total agricultural debt which has only decreased 1.1 percent since peaking at \$47 billion in September 2010. This is despite farm incomes being very strong. An example is the extra income for the

RURAL WRAP

average dairy farmer in 2010–11 will be around \$250,000 per farm above what has received over the last 10 years. If 50 percent of this had been put toward debt reduction, this would have equated to nearly a \$1.5 billion reduction in total agricultural debt. Even though some of this income is still to come through in late October, to–date there has only been a \$0.5 billion reduction in total agricultural debt from the peak and credit has actually increased 1.3 percent over the April to July period.

MEAT AND FIBRE

The 2010-11 meat processing year has just drawn to a close with lamb production down 8.5 percent to 19.2 million head. Mutton production finished at 4.3 million head, up 19 percent on last year. This has reduced opening breeding ewe numbers as at 30 June 2011 to 21.2 million head, down 2.5 percent on last year. The retention of a few more ewe lambs for future breeding, combined with a reasonably solid outlook for lamb and wool should see the national flock stabilise around 21.4 million, down nearly 26 percent, or 7.6 million head, since 2000.

Total beef production finished at 2.28 million head, up 1.3 percent on last year. Beef production was lifted by the largest cow slaughter since 2003-04 of 855,000 head, up 4.4 percent on last year, largely courtesy of the expansion in dairying. Surprisingly, bull and heifer slaughter also rose slightly despite a reduction in beef breeding cows over the last several years.

Latest industry forecasts have export lamb production lifting to 20.1 million head in 2011-12, an increase of 5.7 percent. A reduced breeding flock is offset by better forecast lambing percentages. Early reports are indicating a 10-15 percent lift. Mutton export production is forecast to reverse this year, down 20 percent to 3.4 million head. **Beef production is expected to increase 1.8 percent to 2.32 million head, courtesy of a further increase in cow slaughter from an expansion in the dairy herd.**

HORTICULTURE AND VITICULTURE

The horticultural and viticulture sectors continue to struggle along. The focus is on the spread of PSA symptoms in the Kiwifruit industry and poor orchard–gate returns in viticulture and pipfruit. **This has hit the horticultural property market hard with turnover in horticultural blocks halving since the start of this year and now less than a third of the 10–year average. The average price per hectare has also halved compared with this time last year, plunging to \$75,000 in the three-month period ended August.** Any possible solution is not expected for 3-5 years, which makes for a very difficult period.

Zespri have been circumspect in their kiwifruit forecasts. Cautious demand, combined with the stronger NZD has been reflected in forecasts with the orchard gate return for Zespri Green back \$0.60 per tray to \$3.59 (-15 percent). Gold is back \$1.55 per tray to \$7.34 (-17 percent). Organic Green is back \$0.55 per tray to 5.52 (-9 percent). **The offset to lower per-tray returns is higher yields from the bumper crop.** The higher yields actually leave per hectare orchard gate returns for Gold higher than last year and Green and Organic Green only marginally lower.

Average wine grape prices for the 2011 season declined 9 percent to \$1,172 per tonne, with the Marlborough region softening to \$1,178 per tonne. Grape prices in Hawkes Bay fell 7 percent to \$1,192 per tonne but Gisborne fared better, rising 9 percent to \$879 per tonne. Overall, there was a reduction in prices for most white varieties in most regions, apart from a few more boutique varieties in Gisborne and Hawkes Bay. **The prices for red varieties held up better due to more stable supply.** If the industry continues to experience high yields like this season, then its forecast supply will continue to overshoot demand until well into 2014-15. Average yields would see the balance between sales and supply reached next year.

In the pipfruit industry in-market prices during the peak of the selling season were reasonable and generally firmer than last season. Stronger returns have been received for varieties that are more aligned with the Middle East and Asian markets, including Fuji, the Pacific series and Envy. **The offset has been a particularly strong NZD during the peak of the selling season.**

The resultant orchard-gate returns have been mixed, but generally lower than last year and in many cases below the cost of production. Reports are that Royal Gala have averaged between \$19-\$23.50 per TCE (2010 \$22.90), Braeburn \$15-\$20 per TCE (2010 \$18.25), Jazz \$19-\$21 per TCE (2010 \$21.59), Pacific Rose \$29-\$31 per TCE (2010 \$30.72) and Pacific Queen \$30-\$32 per TCE (2010 \$33.72).

THE UPSHOT

The rural sector has become two-speed.

Livestock aligned sectors are performing well and the main horticultural/viticulture sectors are struggling. Cash flows forecasts look solid for livestock aligned sectors in 2011-12. This provides further momentum and confidence from the stellar 2010-11 season, further helping those parts of the sector where balance sheets have been under stress. The stress in the horticultural/viticulture sector is now starting to spillover into asset values and is likely to have some way to run yet.

MONTHLY INFLATION GAUGE

SUMMARY

Our Monthly Inflation Gauge was unchanged in September after a 0.4 percent decline in August. Lower prices for alcohol were influential, with the rest of the gauge increasing 0.3 percent. There were more price increases than decreases scattered throughout the gauge. Encouragingly, our gauge has showed little evidence of a Rugby World Cup premium being charged. Our gauge suggests a contained Q3 non-tradable CPI outturn is in prospect.

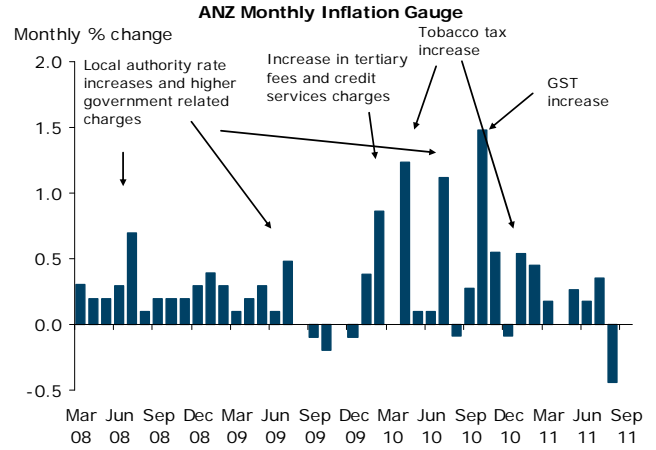
BACK ON TRACK

Our Monthly Inflation Gauge is intended to provide a timely indication of broad trends in CPI non-tradable inflation. While designed to be as comparable as possible to the official quarterly non-tradable CPI as measured by Statistics NZ, differences in methodology and coverage mean the gauge will not exactly mirror the official series. Nonetheless, its performance to date shows that it is a useful indicator of domestic inflationary trends.

The gauge was flat in September, following a 0.4 percent fall in August. Tobacco and alcohol prices fell 2.4 percent, with falls for beer, wine and spirits. Wine prices partly reversed the September spike and beer prices fell to their lowest level since last October. Price falls were also evident for electricity, life insurance, and telecommunication services. Encouragingly, there was little evidence of a sizeable Rugby World Cup premium, with modest price increases for accommodation and domestic airfares. However, more price rises than falls were evident throughout the gauge, most notably for medical services, museum and zoo admissions, health insurance and parking fees. Rents, property maintenance service fees and construction costs all rose.

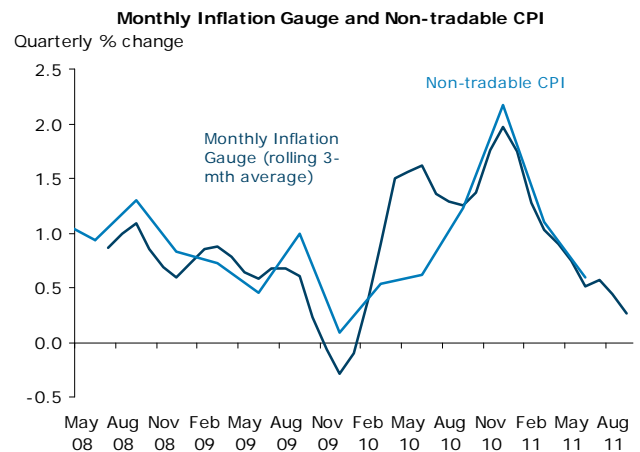
According to our gauge, quarterly non-tradable CPI inflation will be quite soft, which will be welcome to the RBNZ. But this masks mounting underlying inflation pressure. Rising costs for raw materials and labour are adding to construction costs. Rents look set to rise further given looming housing shortages. Higher dwelling insurance costs have not yet flowed through into our sample, but it is only a matter of time, with a strong likelihood this will be picked up in the Q3 CPI. Services-related price rises have been a feature in our gauge, particularly for health and professional services, and this was again the case in August. With the unemployment rate set to fall, skill shortages becoming more acute, and with inflation expectations at elevated levels, the risk is that we see further acceleration in housing and services-related prices. This is an area to which we

will be paying particular attention to in our inflation gauge.



Source: ANZ

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Jan 10	1044	0.4		
Feb 10	1053	0.9		
Mar 10	1053	0.0	0.9	0.5
Apr 10	1066	1.2		
May 10	1067	0.1		
Jun 10	1068	0.1	1.6	0.6
Jul 10	1080	1.1		
Aug 10	1079	-0.1		
Sep 10	1082	0.3	1.2	1.2
Oct 10	1097	1.4		
Nov 10	1103	0.5		
Dec 10	1102	-0.1	1.9	2.2
Jan 11	1108	0.5		
Feb 11	1113	0.5		
Mar 11	1115	0.2	1.0	1.1
Apr 11	1115	0.0		
May 11	1118	0.3		
Jun 11	1120	0.2	0.5	0.6
Jul 11	1124	0.4		
Aug 11	1119	-0.4		
Sep 11	1122	0.0	0.3	



Sources: ANZ, National Bank, Statistics NZ



INTEREST RATE STRATEGY

SUMMARY

Market sentiment continues to swing wildly from day to day. It felt like the end was nigh in the middle of last week, yet today there is an air of optimism about, spurred on by better US data and rebounding equity prices. But was there any substance behind the move, and is this just another flighty move? We suspect so, and with local markets at the mercy of wild gyrations in global sentiment, we're cautious about jumping to conclusions. Although sentiment has improved, the volatility of it has us guarded, and we look for the RBNZ to remain on hold through till the middle of 2012.

MARKET THEMES

- Sentiment continues to swing wildly, and it seems there is benefit in being contrarian. The issues the market is "re-pricing" are multi year, and with interest rates at record lows across the globe, we look set to be in volatile, rather than trending markets.
- It looks to be a big week across the Tasman (and not just for rugby fans), with Australian jobs data holding the key to the RBA's next move.
- We have been pleasantly surprised at how robust demand was the first post-downgrade NZGS bond tender last week. Is the worst over?

REVIEW AND OUTLOOK

Global market sentiment continues to ebb and flow, much like a spring tide. Encouraging as this is on days like this when sentiment is more optimistic, with little real substance behind the rebound (which occurred before the better US jobs data), chances are it's just another flash in the pan. **What we need is a sustained improvement in sentiment, and that won't happen till Europe resolves its massive sovereign debt and bank capital issues, and US politicians can agree on what is already a tough challenge** – getting the right balance of stimulus and austerity. Even if by some miracle these issues are dealt with decisively, we still have the long term hangover of debt to deal with – remember, the debt won't go away.

With yields in major markets like the US and Australia at the top end of post-Operation Twist, and the macro outlook still challenging, we find it hard to get bearish on yields. Remember too, US Fed chair Bernanke upped the ante last week, saying he was prepared to do more if he had to.

Closer to home, Australian events are likely to be at front and centre – and again the risk is these will be associated with lower interest rates – even if RBA cuts are priced in. At issue is the state of the jobs market, a key door opener for the RBA to start adding stimulus with interest rate cuts.

Solid demand for NZGS at last week's tender has us wondering, have we seen the worst? We doubt it's that simple, but we suspect demand will improve as we head into the NZGS 11/11 maturity, and as managers allocate out of credit.

PREFERRED BORROWING STRATEGIES

Swap rates are close to all-time lows for all maturities, although the vast improvement in sentiment since the middle of last week has seen most rates move to the top of intra-week trading ranges. Although rates are low, our preference remains to hold off adding to fixed cover. Not only is there a great deal of uncertainty, but we now see the RBNZ remaining on hold through to mid-2012, removing any urgency to act. Moreover, much of the volatility stems from offshore, and this is set to be a feature of coming months. We doubt NZ rates are headed up sustainably any time soon, and as such, what's the rush to fix?

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	On hold till June, sidelined by global uncertainty.
NZ data	↔/↑	Reasonably robust still.
Fed Funds / front end	↔/↓	Bernanke: "prepared to take further action"
RBA	↔	Jobs data this week holds the key to potential cut.
US 10 year	↔/↓	At the top end of trading ranges. Twist to support.
NZ swap curve	↔/↓	Surprisingly steep. Set to flatten sentiment swings.
Flow	↔	Volatile. No payers one day, no receivers the next.
Technicals	↔/↑	US and AU bonds at the top of recent trading ranges.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 15-Sep-11	-1	0
Thu 27-Oct-11	0	+1
Thu 8-Dec-11	+3	+2
Thu 26-Jan-12	+6	+4
Thu 8-Mar-12	+12	+8
Thu 26-Apr-12	+16	+12
Thu 14-Jun-12	+21	+15

TRADING THEMES WE FAVOUR AT PRESENT

We have been surprised by how far the curve has steepened in the past fortnight. Although sentiment has improved in recent days, the big issues (Europe's solvency and the US bi-partisan budget cuts) have yet to be resolved. Even if they are resolved, austerity will keep growth low, keeping a lid on yields. We favour being positioned for steepeners, and being paid NS curve flies.

CURRENCY STRATEGY

SUMMARY

Market sentiment took a turn for the better last week, spurred on by the BOE's decision to embark on its version of QE2 and on ECB plans to boost liquidity. The NZD generally performed well through this, as it often does when sentiment shifts to "risk on". This looks set to extend this week. But until we see decisive political leadership any risk-on drive via hi-beta plays such as the NZD will lack clear trending momentum.

MARKET THEMES

- European data disappoints with PMIs pointing to slowing economic activity due to destabilisation influences of continued sovereign crisis.
- RBA shifts its inflation outlook to benign allowing monetary to provide support for demand should that become necessary. This RBA shift makes it increasingly unlikely that the RBNZ will need to act soon.
- US data was stronger than expected last week, culminating with non-farm payrolls coming in at 103k and getting strong upwards revisions to July and August reads.
- The market seems to believe that the European leaders get the severity of the situation and may be close to providing a solution.

REVIEW AND OUTLOOK

The NZD has shrugged off the ratings downgrades and Greek pessimism to end the week on an uptrend. This week we are still focused on European woes, with Fitch downgrading Spain late Friday causing a small bout of "risk off" to end the week. However, the interim price action was positive with US jobs data beating expectations. This has helped remove some, but not all, of the worry of a global recession.

Most economists now believe the next move from the RBA will be a cut. The change in bias last week will inevitably spill over into local sentiment, especially given RBNZ Governor Bollard's downbeat comments in the media. This has implications for the NZDUSD and the NZDAUD. As the market comes around to the idea that the OCR could peak at around 4 percent, and with the market pricing almost no chance of rate hikes through to March next year, this should take some of the upside out of NZDUSD. NZDAUD looks attractive as it edges towards the lower boundary of its recent range, particularly as the NZ market is still pricing in RBNZ hikes, in contrast to the cuts that are priced in for Australia.

The ECB held rates and provided unlimited liquidity last week. By contrast, the BOE held rates, but embarked on its version of QE2. **The ECB action addresses the immediate problem of bank liquidity, but not the problem of sovereign solvency or indeed bank solvency.** The next leg of solutions require significant political leadership, in a world where we are seeing the pressures of populism. Until we see such leadership the only clear trend for hi-beta plays such as the NZD will be the lack of one. But for now it looks to be a relieved case of risk-on.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	Close to our fair value estimates.
Yield	↑	The markets still believe the next rate move is up NZD and down AUD.
Commodities	↔/↑	Whilst commodities have negative momentum, soft commodities are outperforming hard.
Partial indicators	↔/↑	Data still holding well in NZ. And decaying in AUD.
Technicals	↔↑	Range bound 0.78250 - 0.8050.
Sentiment	↔	Balanced.
Other	↔	Global sentiment big driver.
On balance	↑	Yield and undervaluation support NZD.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔	Pretty close to short term FV.
Yield	↑	Official rates to stay low but investable yields support.
Commodities	↔	Commodities bounce, breaks negative momentum.
Risk aversion	↔↓	Risk off sentiment has waned but likely to return.
Partial indicators	↑	NZ data better generally better than US data.
Technicals	↔↓	Technical indicators point to possible re-emergence of downtrend after the bounce.
AUD	↓	AUD undermined by data.
Sentiment	↑↓	NZ Growth vs Global recession fears vs EU debt crisis = confusion.
Other	↑	Positioning overly pessimistic.
On balance	↔	Global issues remain the focus, and are unresolved.

EFFECTIVE EXCHANGE RATE UPDATE

SUMMARY

Our effective exchange rate (EER) measures take into account the world prices of our exports (e.g. commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations. Trading conditions improved for six of the eight groups we monitor in September, with the lower NZD a key driver. Lower commodity prices contributed to a sizeable decline in competitiveness for horticulture and crude. Despite the fall in the NZD, only three sectors have supportive effective exchange rates. Given the headwinds posed by a weaker global outlook, this mixed export environment is not conducive to a strengthening in the export sector recovery, which is a prerequisite for increased income generation and the much-needed economic rebalancing.

RESTRICTIVE CONDITIONS FOR MOST

Conditions became more enhancing for five of the eight groups we monitor in September. The major driver was the 1.1 percent fall in the NZD over the period, with the NZD falling by 3.6 percent against the yen and 3.3 percent against the USD. A smaller fall was evident against the AUD, with the NZD strengthening against the euro and pound. A larger margin of improvement was evident for sectors experiencing smaller commodity price falls than the 1.3 percent fall in the ANZ Commodity Price Index (meat, dairy, and forestry) or actual increases (e.g. seafood). A sizeable deterioration in export conditions

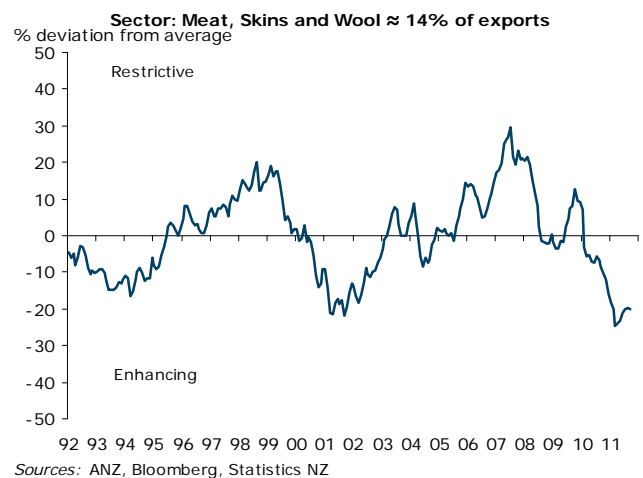
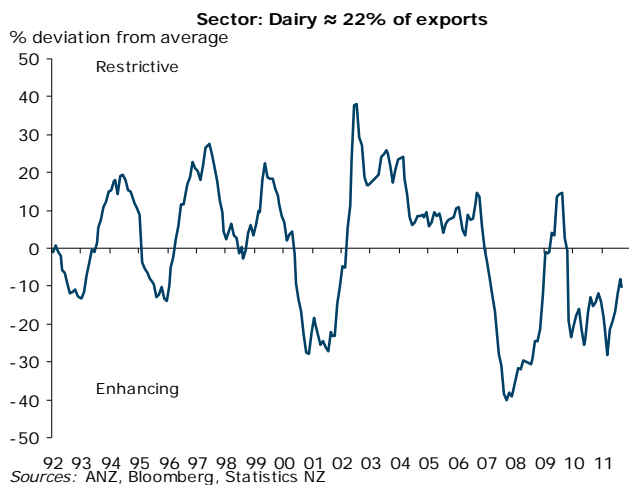
was evident for horticultural products and crude, with both categories witnessing large falls in commodity prices.

Sizeable disparities in trading conditions are evident across the various export groups.

Conditions remain stimulatory for three groups: meat, skins & wool, dairy, and seafood. Despite the high NZD, parts of the export sector appear to be soldiering on. It was disconcerting to see conditions deteriorate for the horticultural sector given earlier signs of progress. Conditions for the services sector (whose exports are highly exchange rate sensitive) remain restrictive despite an improvement in September. Manufacturers continue to be shielded by the low NZDAUD, but with the global economy slowing and the NZDUSD still at high levels, this is providing only a partial offset.

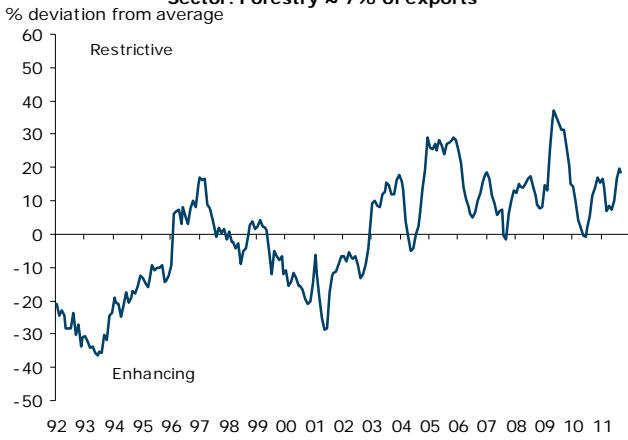
Our analysis is illustrative only as it does not take into account currency hedging, particularly for sectors such as dairy.

And even within sector groups, trading conditions are likely to be quite variable, with firms likely to benefit from the lower cost of imported inputs and capital goods. While the NZDUSD is now lower after hitting post-float highs at the start of August, at 77 cents it still remains challenging for non-commodity exporters who have little pricing power and who are targeting USD markets. In addition, the reason why the currency has fallen (i.e. deteriorating global prospects) does not provide exporters with cause for cheer. It will be a hard slog for much of the export market.



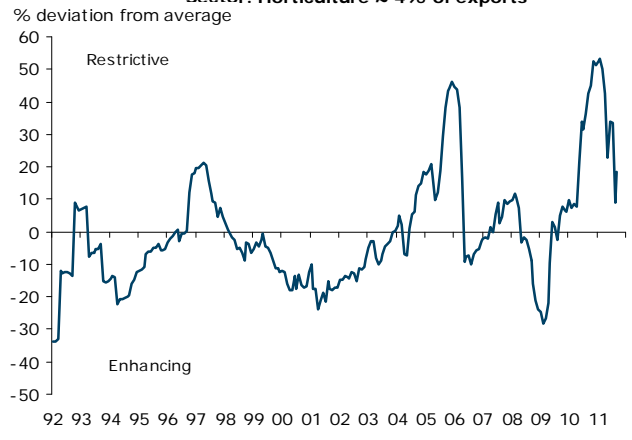
EFFECTIVE EXCHANGE RATE UPDATE

Sector: Forestry \approx 7% of exports



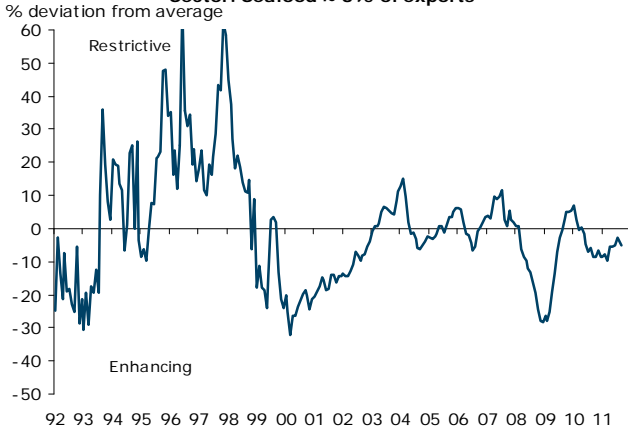
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Horticulture \approx 4% of exports



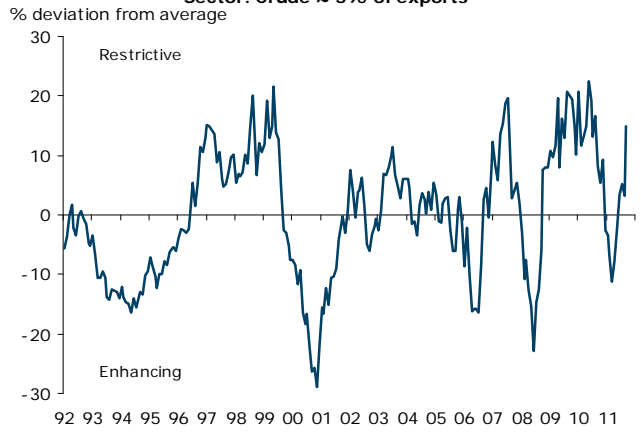
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Seafood \approx 3% of exports



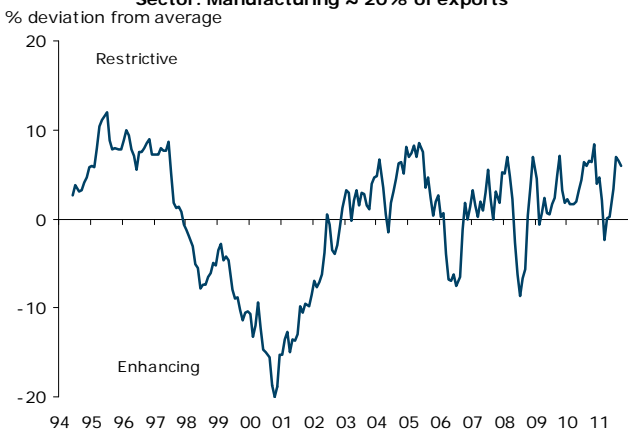
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Crude \approx 5% of exports



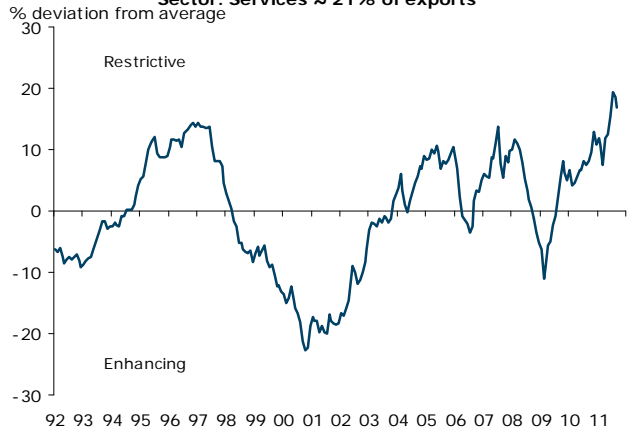
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Manufacturing \approx 20% of exports



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Services \approx 21% of exports



Sources: ANZ, Bloomberg, Statistics NZ

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
10-Oct	AU	ANZ Job Advertisements (MoM) - SEP	- -	-0.6%	13:30
	AU	Foreign Reserves - SEP	- -	A\$43.8B	18:30
	GE	Exports SA (MoM) - AUG	1.1%	-1.9%	19:00
	GE	Imports SA (MoM) - AUG	0.6%	-0.5%	19:00
	GE	Current Account (EURO) - AUG	€5.0B	€7.5B	19:00
	GE	Trade Balance - AUG	€9.0B	€10.4B	19:00
	EC	Sentix Investor Confidence - OCT	-18.0	-15.4	21:30
	CH	Actual FDI (YoY) - SEP	- -	11.1%	10-15 Oct
	NZ	REINZ Housing Price Index MoM% - SEP	- -	0.5%	10-14 Oct
	NZ	REINZ House Sales YoY% - SEP	- -	21.1%	10-14 Oct
11-Oct	NZ	NZ Card Spending - Retail MoM - SEP	1.1%	-0.7%	10:45
	NZ	NZ Card Spending - Total MoM - SEP	- -	-0.5%	10:45
	UK	RICS House Price Balance - SEP	-24%	-23%	12:01
	JN	Current Account Total - AUG	¥453.6B	¥990.2B	12:50
	JN	Adjusted Current Account Total - AUG	¥509.9B	¥752.5B	12:50
	JN	Current Account Balance YOY% - AUG	-63.60%	-42.40%	12:50
	JN	Trade Balance - BOP Basis - AUG	-¥692.3B	¥123.3B	12:50
	AU	NAB Business Confidence - SEP	- -	-8	13:30
	AU	NAB Business Conditions - SEP	- -	-3	13:30
	JN	Bank of Japan Monthly Economic Report - SEP	- -	- -	18:00
	JN	Consumer Confidence - SEP	37.2	37.0	18:00
	UK	DCLG UK House Prices (YoY) - AUG	- -	-1.5%	21:30
	UK	Industrial Production (MoM) - AUG	-0.2%	-0.2%	21:30
	UK	Industrial Production (YoY) - AUG	-1.1%	-0.7%	21:30
	UK	Manufacturing Production (MoM) - AUG	-0.2%	0.1%	21:30
	UK	Manufacturing Production (YoY) - AUG	1.60%	1.9%	21:30
	CH	Foreign Exchange Reserves - SEP	\$3300.0B	- -	11-15 Oct
	CH	New Yuan Loans - SEP	550.0B	548.5B	11-15 Oct
	CH	Money Supply - M0 (YoY) - SEP	- -	14.7%	11-15 Oct
	CH	Money Supply - M1 (YoY) - SEP	12.1%	11.2%	11-15 Oct
	CH	Money Supply - M2 (YoY) - SEP	14.0%	13.5%	11-15 Oct
	JN	Machine Tool Orders (YoY) - SEP P	- -	15.2%	11-14 Oct
12-Oct	US	NFIB Small Business Optimism - SEP	89.0	88.1	00:30
	US	IBD/TIPP Economic Optimism - OCT	38.4	39.9	03:00
	UK	NIESR GDP Estimate - SEP	- -	0.2%	03:00
	NZ	QV House Prices YoY% - SEP	- -	0.1%	12:00
	AU	Westpac Consumer Confidence s.a. (MoM) - OCT	- -	8.1%	12:30
	AU	Westpac Consumer Confidence Index - OCT	- -	96.9	12:30
	AU	Home Loans MoM - AUG	1.0%	1.0%	13:30
	AU	Investment Lending - AUG	- -	1.9%	13:30
	AU	Owner-Occupied Home Loan Value MoM - AUG	- -	1.4%	13:30
	GE	Wholesale Price Index (MoM) - SEP	- -	0.1%	19:00
	GE	Wholesale price Index (YoY) - SEP	- -	6.5%	19:00
	UK	Claimant Count Rate - SEP	5.0%	4.9%	21:30
	UK	Jobless Claims Change - SEP	24.0K	20.3K	21:30
	UK	Average Weekly Earnings 3M/YoY - AUG	2.8%	2.8%	21:30
	UK	Weekly Earnings ex Bonus 3M/YoY - AUG	1.9%	2.1%	21:30
	UK	ILO Unemployment Rate (3mths) - AUG	8.0%	7.9%	21:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
12-Oct	EC	Eurozone Ind. Prod. wda (YoY) - AUG	2.1%	4.3%	22:00
	EC	Eurozone Ind. Prod. sa (MoM) - AUG	-0.8%	0.9%	22:00
	US	Monthly Budget Statement - SEP	-\$64.9B	-\$134.2B	12-15 Oct
13-Oct	US	JOLTs Job Openings - AUG	- -	3228	03:00
	US	Minutes of FOMC Meeting - SEP	- -	- -	07:00
	NZ	Business NZ PMI - SEP	- -	52.9	10:30
	NZ	Food Prices (MoM) - SEP	- -	-1.3%	10:45
	JN	Tertiary Industry Index (MoM) - AUG	-0.3%	-0.1%	12:50
	NZ	ANZ Job Ads MoM - SEP	- -	-0.8%	13:00
	AU	Employment Change - SEP	10.0K	-9.7K	13:30
	AU	Unemployment Rate - SEP	5.3%	5.3%	13:30
	AU	Full Time Employment Change - SEP	- -	-12.6K	13:30
	AU	Part Time Employment Change - SEP	- -	2.9K	13:30
	AU	Participation Rate - SEP	65.6%	65.6%	13:30
	CH	Business Climate Index - 3Q	- -	135.6	15:00
	CH	Entrepreneur Confidence Index - 3Q	- -	132.4	15:00
	CH	Trade Balance (USD) - SEP	\$16.90B	\$17.76B	15:00
	CH	Exports YoY% - SEP	20.8%	24.5%	15:00
	CH	Imports YoY% - SEP	24.6%	30.2%	15:00
	GE	Consumer Price Index (MoM) - SEP F	0.1%	0.1%	19:00
	GE	Consumer Price Index (YoY) - SEP F	2.6%	2.6%	19:00
	GE	CPI - EU Harmonised (MoM) - SEP F	0.1%	0.1%	19:00
	GE	CPI - EU Harmonised (YoY) - SEP F	2.8%	2.8%	19:00
	EC	ECB Publishes Oct. Monthly Report - SEP	- -	- -	21:00
	UK	Visible Trade Balance GBP/Mn - AUG	-£8800	-£8922	21:30
	UK	Trade Balance Non EU GBP/Mn - AUG	-£5350	-£5505	21:30
	UK	Total Trade Balance (GBP/Mln) - AUG	-£4250	-£4450	21:30
14-Oct	US	Trade Balance - AUG	-\$46.0B	-\$44.8B	01:30
	US	Initial Jobless Claims - 8-OCT	405K	- -	01:30
	US	Continuing Claims - 1-OCT	3710K	- -	01:30
	NZ	ANZ Consumer Confidence Index - OCT	- -	112.6	13:00
	NZ	ANZ Consumer Confidence MoM - OCT	- -	-0.6%	13:00
	NZ	Non Resident Bond Holdings - SEP	- -	62.5%	15:00
	CH	Consumer Price Index (YoY) - SEP	6.1%	6.2%	15:00
	CH	Producer Price Index (YoY) - SEP	6.9%	7.3%	15:00
	EC	Eurozone CPI - Core (YoY) - SEP	1.5%	1.2%	22:00
	EC	Eurozone CPI (MoM) - SEP	0.8%	0.2%	22:00
	EC	Eurozone CPI (YoY) - SEP	3.0%	- -	22:00
	EC	Eurozone Trade Balance sa - AUG	- -	-2.5B	22:00
	EC	Eurozone Trade Balance - AUG	-4.0B	4.3B	22:00
15-Oct	US	Import Price Index (MoM) - SEP	-0.4%	-0.4%	01:30
	US	Import Price Index (YoY) - SEP	12.4%	13.0%	01:30
	US	Advance Retail Sales - SEP	0.7%	0.0%	01:30
	US	Retail Sales Less Autos - SEP	0.3%	0.1%	01:30
	US	Retail Sales Ex Auto & Gas - SEP	0.3%	0.1%	01:30
	US	U. of Michigan Confidence - OCT P	60.4	59.4	02:55
	US	Business Inventories - AUG	0.4%	0.4%	03:00

Key: AU: Australia, EC: Eurozone, 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: Global events continue to take precedence. Last week's QSBO displayed considerable resilience, with firms continuing to expect better times ahead despite recent reality disappointing. This week's consumer sentiment will be worth examining for any impact of global wobbles and the NZ credit ratings downgrade. September retail data is expected to confirm a palpable World Cup boost, but not as generalised as many retailers would have hoped for. The housing market is expected to tread water, with forthcoming labour market data a better guide to future consumer spending. We expect the first OCR hike in June 2012, but this is conditional on the global outlook improving. The spirit of our assessment is for a gradual path of policy tightening and a historically low OCR endpoint.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tues 11 Oct (10:45am)	Electronic Card Transactions - Sep	RWC boost	A 2.0 percent increase in retail Electronic Card Transaction (ECT) spending is expected, led by surging hospitality, apparel, and services. Core spending should rise 2.2 percent s.a. m/m.
Thur 13 Oct (10:30am)	Manufacturing PMI - Sep	Easing	Overall PMI should decline to around 51 from 52.9. New orders and deliveries should ease towards the low 50s.
Thur 13 Oct (10:45am)	Food Price Index – Sep	Up	A slight reversal from last month's fall is expected, with the 0.5 percent increase driven by higher meat and grocery prices.
Thur 13 Oct (11:00am)	ANZ job ads – Sep	- -	- -
Thur 13 Oct (1:00pm)	ANZ-Roy Morgan Oct Consumer Confidence	- -	- -
Fri 14 Oct (10:45am)	REINZ Residential Sales – Sep	Up	We expect a 2 percent fall in sales volumes, with prices to remain stable, and the days to sell hovering around the 40 mark.
Fri 21 Oct (10:45am)	International Travel and Migration - Sep	RWC boost	A net permanent and long-term inflow of 300 persons is expected. Visitor arrivals are expected to surge 15 percent s.a.
Fri 21 Oct (10:45am)	RBNZ Credit Card Statistics – Sep	RWC boost	Card spending is expected to climb 2.5 percent, with spending on overseas issued cards surging.
Tue 25 Oct (10:45am)	Consumers Price Index – 2011Q3	Still high	We expect a 0.8 percent quarterly increase, with the annual rate of headline inflation down to 5 percent. Core inflation looks to set to remain in the 2.5 to 3 percent zone over the next year or so.
Wed 26 Oct (1:00pm)	National Bank Business Outlook – Oct	- -	- -
Thur 27 Oct (9:00am)	RBNZ October OCR Review	On hold	The RBNZ will remain on hold given the weaker global outlook. We don't expect a RBNZ move until mid-2012.
Thur 27 Oct (10:45am)	Overseas Merchandise Trade – Sep	Supported	A monthly deficit of \$430m is expected, with the annual trade surplus holding up at \$1.1bn.
Mon 31 Oct (10:45am)	Building Consents – Sep	up	A 2 percent climb in residential issuance is expected. Non-residential consent values of \$300m are expected.
Tue 1 Nov (10:45am)	Labour Cost Index – 2011Q3	Contained	A 0.5 percent quarterly increase is expected for salary and ordinary time wage rates (2.0 percent y/y).
Tue 1 Nov (1:00pm)	ANZ Commodity Price Index – Oct	- -	- -
Tue 1 Nov (10:45am)	Quarterly Employment Survey – 2011Q3		Filled jobs and paid hours are expected to rise 0.4 percent. Average hourly earnings should increase 0.6 percent q/q.
Thur 3 Nov (10:45am)	Household Labour Force Survey – 2011Q3	Firming	A 0.6 percent in employment is expected (1.6 percent y/y). The unemployment rate is forecast to drop to 6.3 percent.
On Balance		Local vs global	Domestic gauges for H2 should remain positive but global concerns suggest caution for 2012.

KEY FORECASTS AND RATES

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
GDP (% qoq)	0.6	0.9	0.1	0.9	1.5	0.4	1.0	0.9	0.8	0.7
GDP (% yoy)	1.3	1.7	1.5	2.5	3.4	2.9	3.9	3.9	3.1	3.4
CPI (% qoq)	2.3	0.8	1.0	0.8	0.7	0.6	0.8	0.7	0.6	0.8
CPI (% yoy)	4.0	4.5	5.3	5.0	3.3	3.1	2.9	2.8	2.7	2.9
Employment (% qoq)	-0.3	1.3	0.0	0.7	0.6	0.7	0.5	0.5	0.4	0.4
Employment (% yoy)	1.3	1.8	2.0	1.7	2.6	2.0	2.5	2.3	2.1	1.8
Unemployment Rate (% sa)	6.7	6.5	6.5	6.2	5.9	5.6	5.5	5.3	5.3	5.3
Current Account (% GDP)	-3.5	-3.6	-3.7	-4.0	-3.7	-4.1	-4.3	-4.6	-4.9	-5.0
Terms of Trade (% qoq)	0.8	0.8	2.3	3.0	1.0	-0.9	-0.8	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	12.3	6.7	7.0	7.1	7.3	5.5	2.3	-1.4	-3.3	-3.1

	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11
Retail ECT (% mom)	-0.9	2.4	-0.1	1.5	1.4	-0.7	1.1	0.3	-0.7	..
Retail ECT (% yoy)	4.4	5.7	6.2	6.6	10.0	6.8	9.0	8.0	8.4	..
Credit Card Billings (% mom)	-1.7	3.1	-0.2	0.1	1.2	0.5	0.6	0.7	-1.2	..
Credit Card Billings (% yoy)	2.4	5.8	5.1	2.9	6.2	5.9	5.8	7.9	4.9	..
Car registrations (% mom)	-8.8	1.3	-2.0	0.0	-5.5	3.6	-2.0	-1.0	6.5	..
Car registrations (% yoy)	6.4	6.8	2.8	-1.0	-10.5	-3.7	-9.5	-6.0	1.9	..
Building consents (% mom)	-18.0	9.1	-9.8	2.4	-1.1	3.8	-0.5	14.3	12.5	..
Building consents (% yoy)	-26.5	-14.9	-28.9	-25.9	-32.4	-21.8	-25.2	-15.2	18.1	..
REINZ House Price Index (% yoy)	-1.6	-2.6	-0.7	-1.8	-0.4	-0.7	0.0	0.5	0.7	..
Household Lending Growth (% mom)	0.1	0.1	0.1	-0.1	0.2	0.1	0.1	0.2	0.1	..
Household Lending Growth (% yoy)	1.6	1.5	1.5	1.2	1.2	1.2	1.2	1.2	1.1	..
ANZ Roy Morgan Consumer Confidence	112.2	117.1	108.1	101.4	101.4	103.3	112.5	109.4	113.3	112.6
NBNZ Business Confidence	29.5	..	34.5	-8.7	14.2	38.3	46.5	47.6	34.4	30.3
NBNZ Own Activity Outlook	34.5	..	36.6	14.7	29.5	39.7	38.7	43.7	43.3	35.4
Trade Balance (\$m)	-218	9	184	583	1158	550	200	111	-641	..
Trade Balance (\$m ann)	1172	909	765	741	1238	1019	998	1295	1084	..
ANZ World Commodity Price Index (% mom)	1.6	4.3	2.7	4.7	1.6	0.4	-1.2	-0.2	-1.4	..
ANZ World Commodity Price Index (% yoy)	12.1	16.2	20.3	23.5	19.8	19.6	20.6	22.2	22.0	..
Net migration (sa)	720	430	430	-510	-120	-340	-260	-150	210	..
Net migration (annual)	10451	8689	8249	6554	5508	4625	3867	2867	2257	..

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	Aug-11	Sep-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZD/USD	0.854	0.767	0.768	0.78	0.80	0.83	0.86	0.89	0.90	0.90
NZD/AUD	0.798	0.784	0.788	0.80	0.80	0.79	0.78	0.81	0.82	0.82
NZD/EUR	0.594	0.566	0.575	0.58	0.58	0.59	0.61	0.61	0.62	0.62
NZD/JPY	65.48	58.74	58.89	58.5	60.0	59.8	61.9	64.1	63.0	63.0
NZD/GBP	0.526	0.492	0.494	0.50	0.51	0.52	0.53	0.55	0.55	0.55
NZ\$ TWI	73.0	68.2	68.6	69.3	70.3	71.3	72.8	74.8	75.4	75.4
INTEREST RATES	Aug-11	Sep-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.25	3.50	3.75
NZ 90 day bill	2.99	2.86	2.81	2.80	2.80	3.20	3.50	3.50	3.90	4.00
NZ 10-yr bond	4.52	4.42	4.44	4.40	4.50	4.60	4.80	4.90	5.00	5.00
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
US 3-mth	0.33	0.37	0.39	0.35	0.35	0.35	0.35	0.35	0.35	0.35
AU Cash Rate	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
AU 3-mth	4.87	4.92	4.70	4.90	4.90	4.90	4.90	4.90	4.90	4.90

Forecasts finalised as at 7 October 2011

	7 Sep	3 Oct	4 Oct	5 Oct	6 Oct	7 Oct
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.92	2.83	2.82	2.82	2.82	2.80
NZGB 04/13	3.02	2.87	2.80	2.80	2.80	2.78
NZGB 04/15	3.52	3.35	3.29	3.29	3.29	3.27
NZGB 03/19	4.26	4.19	4.13	4.13	4.13	4.11
NZGB 05/21	4.44	4.42	4.36	4.36	4.36	4.34
2 year swap	3.31	3.09	3.02	3.02	3.02	2.98
5 year swap	4.01	3.78	3.70	3.70	3.70	3.64
RBNZ TWI	71.5	68.2	67.9	67.9	67.9	68.3
NZD/USD	0.8266	0.7608	0.7532	0.7532	0.7532	0.7604
NZD/AUD	0.7811	0.7896	0.7923	0.7923	0.7923	0.7974
NZD/JPY	63.85	58.59	57.76	57.76	57.76	58.28
NZD/GBP	0.5170	0.4897	0.4878	0.4878	0.4878	0.4928
NZD/EUR	0.5885	0.5706	0.5706	0.5706	0.5706	0.5722
AUD/USD	1.0582	0.9635	0.9506	0.9506	0.9506	0.9536
EUR/USD	1.4047	1.3333	1.3200	1.3200	1.3200	1.3288
USD/JPY	77.25	77.01	76.69	76.69	76.69	76.65
GBP/USD	1.5987	1.5537	1.5441	1.5441	1.5441	1.5431
Oil (US\$/bbl)	86.33	78.89	77.32	75.42	75.42	75.42
Gold (US\$/oz)	1848.60	1628.85	1667.05	1620.75	1620.95	1624.70
Electricity (Haywards)	9.64	14.94	12.42	9.23	13.69	13.84
Baltic Dry Freight Index	1744	1886	1885	1908	1967	2000
Milk futures (USD)	143	143	142	143	144	146

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