

FAIRY DAIRY TALES

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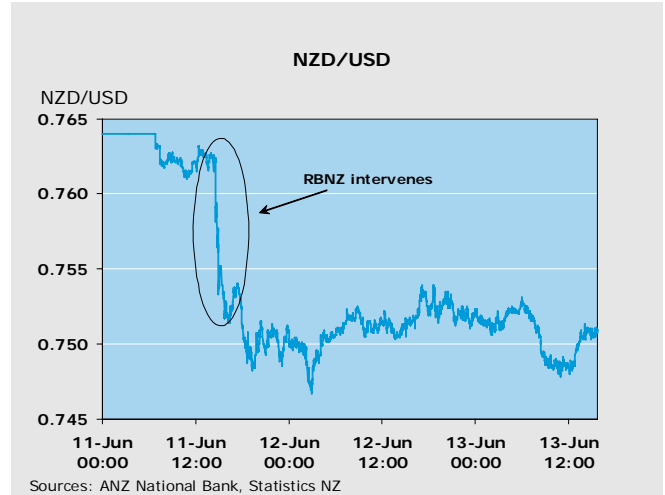
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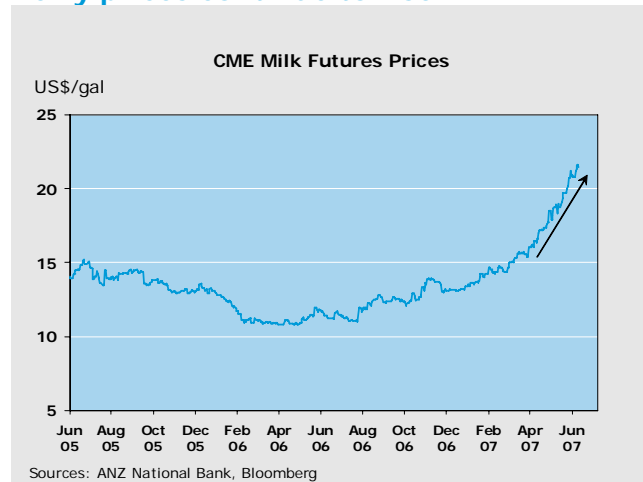
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The RBNZ has intervened in the currency markets for the first time since 1985.



Dairy prices continue to rise.



ECONOMIC OVERVIEW

We believe little should be read into the RBNZ's currency intervention in terms of what it implies for monetary policy. While there have been some hints of softening in the domestic data, it remains very early days.

What's ahead...

- NZ May External Migration (Wednesday 1045 NZST). Permanent departures have been rising resulting in a fall in the annual net migration inflow. We expect this to continue.
- NZ May Credit Card Billings (Friday 1500 NZST). Softness is expected given the tightening in financial conditions.

What's the view

The week started with a crash and a bang when the Reserve Bank decided that the threshold had been crossed for intervention in the currency markets after the NZD hit a new post-float high of 0.7640. It caught all by surprise and saw the currency initially fall by over 1 US cent. Subsequently the NZ dollar has recovered (slow grinds up the stairs), and the jury remains out on how effective the intervention has, or is likely to be.

What has really got the market buzzing is what signal it is potentially sending about monetary policy, particularly coming on the heels of a hawkish June *Statement*. After all, it seems peculiar to intervene if you are actively considering hiking rates. As Reserve Bank research notes, *"it makes little sense to intervene when the Bank believes higher interest rates may be required"* (The Reserve Bank's new foreign exchange intervention policy, RBNZ Bulletin, Vol 68, March 2005).

We are nonetheless coy about reading too much into it from a monetary policy perspective.

- Reserve Bank communication on the day notes that *"This action does not prejudice the future direction of monetary policy"*.
- Given the massive sell-off in rates the preceding Friday (the 5 year swap increased 16 basis points) the Reserve Bank probably felt it had "cover" for any mild market reaction or loosening in monetary conditions.
- Intervention is not inconsistent with the Policy Targets Agreement (PTA). The argument is that trying to weaken the currency is inconsistent with the PTA, as a weaker currency will put upwards pressure on inflation. True. Yet intervention is not designed to turn the currency. Rather, Reserve Bank research makes it clear that intervention will only be successful in ironing out the peak in the currency. It is the scenario of continued unfettered rises in the NZD (which risks hollowing out the export sector), and then a

massive collapse, that presents the greater risk to the PTA.

- The intervention on Monday looked to be largely opportunistic, following a curious surge in the NZD the preceding Friday, which we suspect effectively forced the Reserve Bank's hand. Coupled with a public holiday in Australia on Monday, this gave intervention a strong chance of success.

Turning to the data last week, there were some mildly encouraging signs for the Reserve Bank. Retail sales softened. REINZ data also gave the first hints of an easing as house price growth slowed, rising only \$1000 in the month of May. Manufacturing data was weaker than we anticipated, capping the potential for an upside surprise in Q1 GDP. Yet softness in retail spending in April follows surprisingly strong monthly increases in February and March and therefore likely represents some statistical payback rather than general underlying weakness. The softish gain in house prices could have easily been driven by compositional effects. The average days to sell a house – the key indicator in our view – remained low at 28 days (on a seasonally adjusted basis).

It remains early days looking for the sustained slow-down the Reserve Bank is seeking. We suspect data this week (easing migration and soft credit card billings) will add weight to the moderating trend, but such indicators are second tier data at best. Admittedly, we expect the softening tenor to extend. But we still remain coy about ruling out a further hike in the OCR when we look at the upcoming June quarter inflation result. Another surge in non-tradable inflation – and particularly the ex housing component, could force the Reserve Bank's hand once again.

For now, our core views remain built around a material (rapid) slowing in the economy in the second half of the year, but monetary policy remaining on hold for a considerable period. We expect the currency to be the release valve via which monetary conditions loosen. However, we have been forced to upgrade our currency projections for the coming months in light of a stronger opening position for the NZD and AUD, although the spirit of the forecasts and a major move sometime in 2007 remains unchanged.

Recent data...

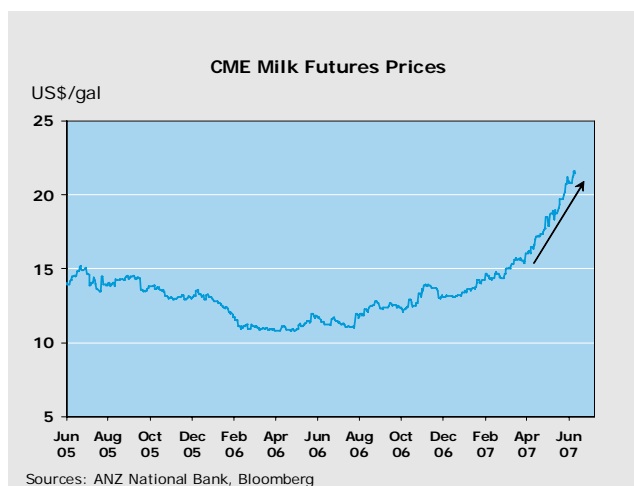
- **NZ Overseas Trade Indices (Mar qtr)**. The terms of trade rose 2.0 percent in the quarter.
- **NZ Retail Sales (Apr)**. Headline sales fell 1.2 percent, while core sales fell 0.9 percent.
- **NZ Economic Survey of Manufacturing (Mar qtr)**. Total sales rose 0.8 percent. In real terms, sales rose 0.3 percent.
- **REINZ housing report (May)**. Seasonally adjusted house sales rose 1.2 percent, days to sell a house remained at 28 days (s.a.) and median house prices increased to \$350,000.

DAIRY TALES

To spend or not to spend, following the forecast uplift in the dairy payout? We report on some of the anecdotes we are hearing from the big dairy aligned regions. While there are some elements of caution, the anecdotes are nonetheless pointing to considerable economic impetus.

The Reserve Bank's June *Monetary Policy Statement* devoted a considerable amount of space to the sharp increase in world dairy prices, and what that would mean to the growth and inflation outlook. The Reserve Bank expects dairy prices to stay high at current levels for at least another year or so, before trending lower in 18 months time.

As part of the June *MPS*, the Reserve Bank ran an alternative scenario where the economy was more stretched and dairy prices remained higher than their central projection. Their 90-day interest rate track implied another OCR hike, and it staying at over 8.4 percent through to March 2009! Dairy prices have continued to increase recently and remain supported by the tight global supply-demand balance.



How the forecast payout increase will impact on monetary policy largely depends on how farmers react to the significant income boost. Will they repay debt, or will they continue to spend?

Our staff at Field Days provided us with some feedback: *"a regular comment has been we haven't received it yet (payout). However activity through our site would indicate a lot of interest in the South Island for conversions, expansion etc. There was also talk of spending on deferred maintenance and capital items."*

We have asked our rural managers from the large dairy align regions to report back to us with some of the anecdotes they are hearing from farmers. We report on them below.

Northland

"Farmers are viewing the expected lift in the payout as more of an actual lift. There is evidence of increased spending, particularly for new motor vehicles and tractors (with the high NZD also assisting here), while capital spending on farms looks to have picked up, with contractors doing say 2-3 weeks work, rather than just a weeks work in the past."

The rural property market also looks to have reacted, with a number of farms being withdrawn from the market. Dairying is suddenly more attractive, plus some farmers believe that property values will lift next year as dairy revenue gets capitalised, so are holding on for that. Land agents note a pick up in the level of enquires about properties, and there is evidence of farms, which had gone out of milking in recent years, being brought back into dairying."

Morrinsville/Hauraki Plains

"Although there is an air of optimism around the expected payout, most Fonterra suppliers look to be erring on the side of caution. There are a number of reasons for this; the money hasn't arrived yet and not sure how long a \$5+ payout will last, many farmers can't foresee a \$5 payout with the currency at 0.75, farm costs continue to rise, and debt servicing costs have increased considerably."

But it is likely that many farmers will upgrade plant and machinery and complete development projects that otherwise wouldn't have been completed. Hence, with overall farm costs, interest costs, and increased spending, it is unlikely there will be a major reduction in debt."

Waikato

"Many farmers are seeing the increase in payout as more than a one or two year lift, albeit, not to the levels expected over the next 12 months. A lot of development and plant replacement planned over the next year and a big lift in discussions around growth opportunities, particularly in the South Island, but also properties closer to home."

A few with intentions to re-pay debt although in most cases this will only be a portion of the expected increase in income with the remainder directed into growth opportunities, development and plant replacement."

New Plymouth

"There looks to have been an incredible turn around in optimism over the past 3-4 months, with farmers very happy and somewhat surprised with the forecast payout. There is a mixed bag in terms of how farmers intend to utilise the additional"

revenue, although the general approach seems to be one of conservatism at this stage.

Some have talked about upgrading tractors and vehicles. Those farmers that have expanded in recent years are now further convinced they have made the right move, however they too appear to have an attitude of consolidation.

There does remain a school of thought that the increased payout has come about to placate shareholders in the face of increased competition in the market, and to butter up shareholders prior to the possible capital restructure later this year. Whether or not these views have any substance will become evident over the coming months."

Hawera

"Several clients have already used the increased forecast payout as an opportunity to look at upgrading tractors, or doing minor capital developments. However, many of them will wait until the money actually hits their accounts.

Increasing costs are a big issue. Some clients have locked in fixed price feeding supplement contracts as the price is rumoured to increase significantly. Higher interest rates have also taken the shine off the coming dairying season as many farmers who were fixed at less than 8 percent, are facing rates at 9 percent plus.

Overall farmers are generally confident in the outlook of the dairy industry but realise that costs are continually increasing and the forecasted payouts are a good opportunity to make their business more viable long-term."

North Canterbury

"Access to reliable, cost effective water in Culverden Basin is spurring interest in conversions. Sheep and beef farmers around Cheviot who have access to water are getting their heads around the conversion costs and the mindset required to manage high levels of debt (relative to the level they can service from sheep and beef).

Current property listings have dried up with most potential dairy farms being withdrawn from the market. Some may be re-launched on the spring market with higher expectations for sale price."

Mid Canterbury

"There were a few farms for sale at the end of May and they sold pretty quickly on announcement of the payout – you would say that confidence has lifted, but people don't have the money yet. This time last year, there was the biggest snowfall in 70 years, so people are wary of going out of the blocks too quickly.

Conversions will be where the bulk of money is spent, but water is a limiting factor in Mid

Canterbury for now, this may slowly improve pending developments around district irrigation schemes."

Gore

"Conversion focus has certainly gone up a gear. Any sheep and beef farmers that had been investigating the option have become more serious about their due diligence than 12 months ago and are moving to detailed analysis. There are some concerns about supply of labour and interest in on-farm technology via automated milking systems has increased as a result.

Up until last month's payout announcement, existing dairy farmers with borrowing capacity and/or cash surpluses were still generally looking at expansion opportunities. However, this appears to have moderated somewhat. There is a view that it may not be the best time to buy in a rising/buoyant market."

Remainder of Southland

"Approximately 30 dairy conversions have occurred in Southland/Otago for the 07/08 year. This is expected to rise to 50-60 conversions for the 08/09 year. There has been considerable interest from sheep farmers and outside investors, however the window of opportunity is short due to the lack of availability of builders and contractors. We have seen conversion quotes continue to rise, with builders and contractors building in increased margins for this work.

On the initial projected payout of \$4.10/kgms there was little room for principal repayments, and in many cases dairy farmers would have been making cash losses. Based on the 07/08 projection of \$5.53/kgms, budgets show considerable surpluses, but the question remains as to how much will be applied to debt reduction. Activity in the land market has been building since around February, and especially since payout expectations were lifted in May. We have seen a number of farms pulled from the market, but those that have sold have been at increased prices of between 5 – 10%. Currently there are few farms available for purchase, but a high number of purchasers, and we expect this to translate to increased land values."

INTEREST RATE STRATEGY

Last week's weaker housing data will see curves invert with mortgage paying concentrated in the front dates – also helped with the U.S 10-year yields failing above 5.25 percent.

Market themes...

- Mortgage books are expected to target pull-backs limiting value in the 2 year IRS below 8.35 percent.
- Weaker NZ housing data released last week will add to the offering theme further out the IRS curve.
- Curve direction will be dictated to by offshore moves in particular the US & Australian CPI prints.

Outlook...

We are expecting a week where we see accounts look for offshore movements for direction of the IRS and NZGB curve. We will be looking for the IRS curve to invert over the week with the 2/10's testing back into the mid 70's. There are two main reasons that we favour curves to invert this week.

1: Last week's REINZ housing data remained robust, but the key take from the report showed a slow in growth. It is agreed that it maybe perhaps a tad too early to think we are about to see a turn in the housing market, but this maybe the first sign of recent tighter financial conditions taking effect. The true test is expected around July, when the full impact of a massive surge in fixed lending rates to 9 percent manifests.

2: The US 10-year has failed above the key level of 5.25 percent. Despite the recent data in the US markets being supportive in terms of growth, there are concerns that the weak US housing data and recent moves higher in oil will dampen consumer spending.

As we acknowledge, we need to see the data over the next 5-6 weeks, but we favour paying into the OIS curves as markets reduce the chances of a move by the RBNZ in July. Current market pricing has 4.8 points priced for a move by the RBNZ in July.

The NZGB curve is dancing a different tune to that of the IRS curve. Unknown changes by the RBNZ to ESAS mean a nervous demand for short-dated stock. As it is still unclear what this means for the cash markets, we expected an ongoing demand for short stocks until sometime in August. This may also explain why the DMO has chosen to issue 100mio April 2009 bond in this week's NZ Bond Tender. (50mio Nov 2011 & 50mio April 2015 also to be tendered). An underlying bid tone to long

dates is expected over the week with US markets pulling back and 10-year EFP below 100 points.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔/↑	Three hikes in a row, and a fourth one cannot be ruled out.
NZ data	↔/↑	Last week's weaker housing data inconclusive for the RBNZ.
Fed Funds/front end	↔/↑	Fed look to be hold for rest of this year. Housing market and surge higher in oil a concern.
RBA	↔/↑	CPI print the key for RBA.
US 10 year	↔↓	US bond failing above 5.25 percent
NZ swap spreads	↔/↑	10-year spreads below 100pts is expected to find the payer.
Flow	↔/↑	2-year IRS limited below 8.35 percent. Curve inversion trades favoured.
Technicals	↔	The technical picture changes week by week – trade your flow till market direction becomes clearer.

Borrowing strategies we favour at present

Interest rates remain range bound awaiting further data to give direction. We have seen significant increases in rates along the curve. While there has been some relief since the release of the April Retail Sales data, pressure remains. Fixing in the 2- and 3-year part of the curve represents good insurance over the short-term and allows borrowers to participate in restructuring opportunities if we were to see a dip in yields in the medium-term. Introducing optionality into your strategy allows participation if rates fall.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 26-Jul-07	52	19
Thu 13-Sep-07	72	39
Thu 25-Oct-07	74	0
Thu 6-Dec-07	74	4
Thu 24-Jan-08	74	0
Thu 6-Mar-08	74	-4
Thu 24-Apr-08	74	-8

Trading themes we favour at present

We expect a receiving bias at these high yields will see the curve invert.

CURRENCY STRATEGY

The NZD looks hostage to wider global yield and risk related support, versus the RBNZ capping the topside. 0.7450 is key on the downside. Expect ranges to continue for now.

Market themes...

- Intervention. What does it mean for monetary policy?
- Retail demand from Asia?
- Time on RBA's side.
- BOJ on hold, and Fed the same, equals fervour for all the other yielders.

Outlook...

Yield, yield, yield. It's a familiar story that continues to underpin the NZ dollar.

The BoJ looks on hold for a while yet, and Friday's subdued core CPI reading in the US looks to have capped the potential for the US bond market to continue running skyward. It's a combination that is driving fervour for all other yielders, the NZD included.

Last week's muted reaction to the retail sales result that, while looking to be statistical payback, was still outside of the range of estimates is perhaps the clearest indication that interest rates with an 8 percent handle in front of them are just too tempting.

Favoured talk is that support for the NZD is being dominated by Asia and largely in the Asian time-zone. This looks a red-herring to us. The real story here is model related carry buying from large funds. The latest IMM positioning data show +\$2.6 billion of net long positions in the kiwi – up 32 percent on the preceding week, and the previous week was a record! IMM data will massively understate true positioning although we suspect the bias – up – is correct.

To be fair the NZD has kicked ahead of where the yield differential would imply, and a reflection that investors are all in short-term (0-3 months) or until the northern summer ends and then it'll be exit time. 0.7450 is now a huge level for these participants. Last week's retail sales figures may have been weak, but they were countered on the day by a solid manufacturing PMI reading. There is simply little to scare participants at present when looking at the global backdrop, despite some quarters remaining wary of the Reserve Bank.

Intervention by the Reserve Bank this morning – the second in a week – looks designed to dent the bullet-proof persona. The jury remains out on how effective it may be. As noted above 0.7450 is a

key level for the carry related support but the obvious danger is that someone decides to take the Reserve Bank on toward the topside. Unlike last week, the NZD is not leading the pack on the way up this time around so the Reserve Bank is playing with considerably more fire in selling around the 0.7550 level. Certainly, when we look at the upcoming data calendar, it looks light with little to provide direction.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↑/↔	Advantage NZ – 8.00 v 6.25.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Aussie ahead of us in the terms of trade cycle.
Technicals	↔	0.9025 key resistance.
Sentiment	↓	RBNZ should consolidate. Market aware NZD/USD strength waning.
Other	↔	Yield still attractive for both Uridashi and eurokiwi. But maturity profile steepening.
On balance	↔	Short-term consolidation

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.62-0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↓	Some sectors booming, but over-priced now.
Yield	↑	8% clearly a buy trigger.
Commodities	↔	Higher commodity prices remain supportive but NZD over-priced on dairy alone.
Risk aversion	↔	Euphoria exists but RBNZ planted seeds of doubt.
Partial indicators	↔	Commodity currency consolidating, emerging markets remain jittery at extended levels.
Technicals	↔	NZD not trading breaks well but 0.7450 key support.
AUD	↔	Stable but not leading.
Sentiment	↓	RBNZ signal listened to.
Other	↓	Offshore market is very long. We think 0.7800 to cap for large retracement.
On balance	↑/↔	Consolidation but 0.78 is extent of move.

COMMODITY ELEVATION VERSUS PRODUCTIVITY PALPITATIONS

Commodity prices and the terms of trade are certainly supporting notions of a higher equilibrium exchange rate. But amongst all the hoop-la, the market is overlooking productivity growth as a key fundamental that is pointing lower.

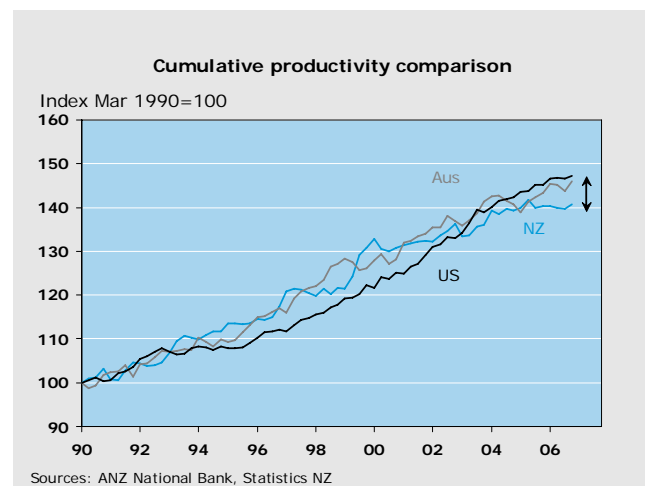
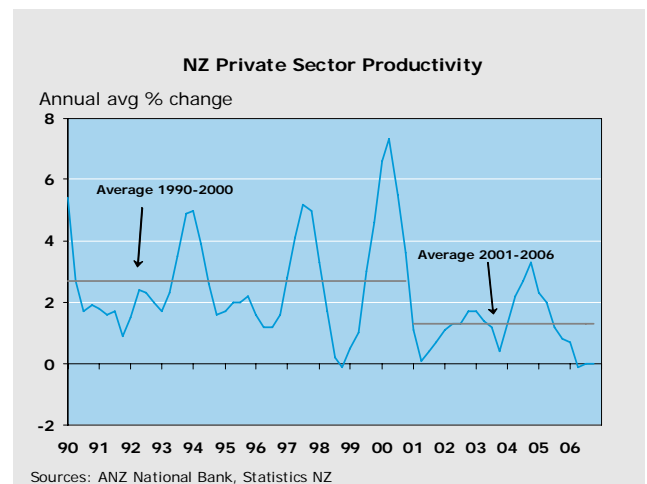
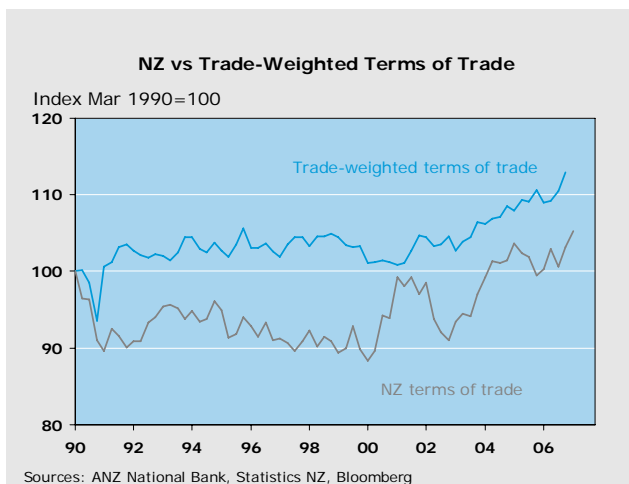
The NZD looks to be in a new range. Strength in commodity prices justify a sustained shift higher in fair value for the NZD. The NZD is expected to stay higher for longer as a consequence.

It's a compelling argument. Structural uplifts in commodity prices are insulating the export sector. Corporate New Zealand does not seem to be under the same degree of earnings stress that previous surges in the NZD beyond 0.70 has fostered.

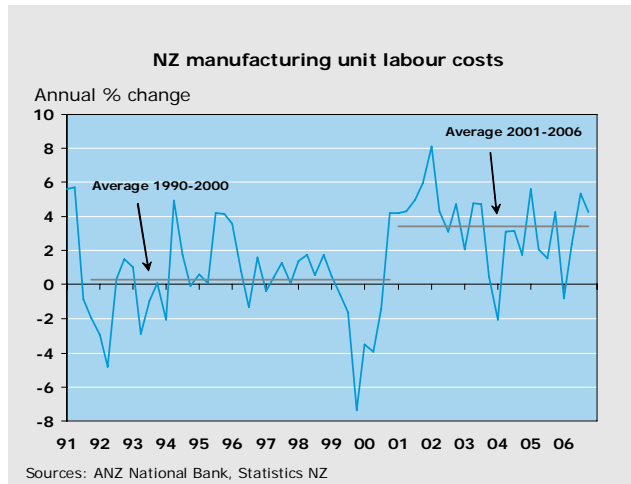
Yet it's an argument we remain wary of extrapolating too far.

- **It is a terms of trade story as opposed to a commodity price story.** Relative, as opposed to absolute prices are what matter. World soft commodity prices have risen by more than 20 percent in the past 12 months, while NZ's terms of trade is up a more modest 5 percent. The terms of trade effect as opposed to the commodity price effect is the real income gain to the country. Let's not forget New Zealand is a net importer of oil, and other hard commodities have surged in price.
- **In fact if you look at NZ's terms of trade vis-à-vis a trading partner equivalent (currencies are two sided coins after all so we need to look at relative terms of trade) it is actually stable.** Obviously the massive boost to Australia's terms of trade is having a major impact here. The upshot of this is that fair value for the NZD on a TWI basis should be no higher. While NZ's terms of trade are up, so is our trading partner weighted equivalent.

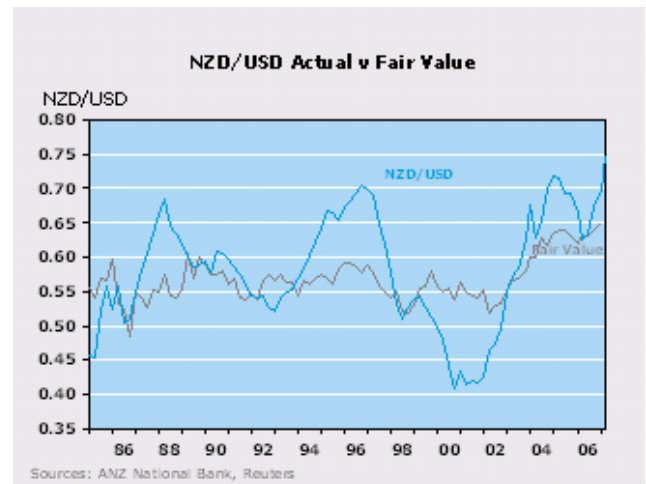
- **If we accept that commodity prices are indeed justifying a higher level for the NZD/USD, where does that put fair value for the NZD/AUD?** Sub 0.80? Australia's terms of trade are up 12 percent in the past year while ours are up only 5 percent. Their hard commodity prices have nearly doubled. Sub 0.80 just seems intuitively too low to us and highlights the inconsistency in the argument. You cannot expect fair value for the NZD/USD to be now higher than 0.70, and expect fair value for the NZD/AUD (based on the same terms of trade and commodity story) not to have taken a pummeling.
- **Productivity is a key medium-term fundamental that is being overlooked.** We may be getting a better price through our terms of trade of commodity prices, but we are producing the goods less efficiently. Average market sector productivity growth has roughly halved in the past six years relative to the prior decade. Although partly cyclical, it looks to contain a structural element. **The cumulative market sector productivity "loss" vis-à-vis Australia and US since 2001 has been 8 percent.** This is massive and has largely eroded the benefit of a rising terms of trade. You cannot expect to sustain a high currency if your competitors are producing goods far more efficiently.



- **Unit labour costs are high.** Between 1991 and 2000 the annual growth in NZ's manufacturing unit labour costs averaged 0.3 percent. Since 2001, it has averaged 3.4 percent. Manufacturers are not competitive in a rising unit labour cost environment and we strongly suspect to see considerably more relocations offshore over the year.



- **We have been here before.** Back in 2000 when the NZD was wallowing below 40 US cents, the market thought the NZD would stay weak forever. The thought of the NZD/USD increasing to 0.60 was outlandish. (Remember those importers pilling in at 0.50 when it started to move up?). Now people are saying a depreciation to 0.60 is a stretch. Back then the USD was expected to stay strong forever. Now everyone thinks the greenback is done and dusted. Let's not forget that the NZD/USD was at 0.7450 in March 2005, and hit 0.60 a year later. Currencies oscillate.
- **We estimate fair-value for the NZD/USD as rising, but sitting around 0.65.** Fair value does tend to wobble in line with changing economic fundamentals. Our estimate of fair value is based on combinations of interest rates, terms of trade, productivity (unit labour costs) inflation, growth and the current account deficit. It is higher than in the past so exporters should be conservative setting long-term (i.e. 5 year) hedge parameters. The historical or decade average does look too low. But equivalently, all this hype about a massive jump in fair value towards 0.70 looks unjustified.



The upshot

Fair value for the NZD is undoubtedly higher than in the past and likely to rise over time given the structural shift up in commodity prices. However, the gains to this economy from rising commodity prices, and through our terms of trade have been partly eroded by weak productivity growth and rising unit labour costs relative to our trading partners. The latter two point to economic stress within the export sector at some point down the track, and the NZD will not stay high indefinitely in such an environment.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
18 Jun	UK	Rightmove House Prices (Jun) – mom	-	0.4%	11:01
	EU	ECB's Gonzalez-Paramo Speaks in Valencia	-	-	20:00
19 Jun	EU	ECB's Trichet Speaking in Montreal	-	-	04:00
		ECB's Smaghi Holds Speech in Berlin	-	-	19:15
		ZEW Survey (Economic Sentiment) (Jun)	26.0	22.3	21:00
	US	NAHB Housing Market Index (Jun)	30	30	05:00
		Fed's Minehan Gives Welcome Remarks at Bank's Conference	-	-	11:00
	AU	Preliminary BoP Imports (May) – mom	-	-3.0%	13:30
	JN	Nationwide Dept. Sales (May) – yoy	-	-1.5%	17:30
	GE	ZEW Survey (Economic Sentiment) (Jun)	29.0	24.0	21:00
		ZEW Survey (Current Situation) (Jun)	88.0	88.0	21:00
20 Jun	US	Fed's Minehan Given Introductory Remarks at Bank's Conference	-	-	00:15
		Former Fed Chairman Volcker Speaks at Kentucky College	-	-	00:30
		Housing Starts (May)	1,472k	1,528k	00:30
		Building Permits (May)	1,470k	1,457k	00:30
	NZ	Visitor Arrivals (May)	-	-2.2%	10:45
	JN	BSI Large Manufacturing (2Q) – qoq	-	0.1	11:50
		BSI Large All Industry (2Q) – qoq	-	6.2	11:50
		BoJ Monetary Policy Minutes for April 27 Meeting	-	-	11:50
		BoJ Monetary Policy Minutes for May Meeting	-	-	11:50
		All Industry Activity Index (Apr) – mom	1.1%	-1.4%	11:50
		BoJ Deputy Governor Muto to Hold Press Conference	-	-	17:00
	AU	Westpac Leading Index (Apr) – mom	-	0.2%	12:30
		DEWR Skilled Vacancies (Jun) – mom	-	-1.1%	13:00
		New Motor Vehicle Sales (May) – mom	-	-1.1%	13:30
		Dwelling Starts (1Q)	-	-0.8%	13:30
	GE	Producer Prices (May) – mom	0.2%	0.1%	18:00
	UK	Bank of England Minutes	-	-	20:30
		Public Finances (PSNCR) (May)	7.0B	-3.8B	20:30
		Public Sector Net Borrowing (May)	7.3B	1.1B	20:30
		M4 Money Supply (May P) – mom	1.0%	1.3%	20:30
	EU	Construction Output (Apr) – mom	-	0.9%	21:00
21 Jun	US	Fed's Yellen, Geithner Speak at San Francisco Fed Conference	-	-	03:30
	JN	Merchandise Trade Balance Total (May)	¥470.4B	¥922.8B	11:50
		Adjusted Merchandise Trade Balance (May)	¥890.0B	¥1,027.8B	11:50
		BoJ Governor Fukui to Speak to Shinkin Bank Convention	-	-	18:30
	AU	RBA Foreign Exchange Transaction (May)	-	\$354m	13:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
21 Jun cont.	EU	PMI Manufacturing (Jun A)	54.9	55.0	20:00
		PMI Services (survey) (Jun A)	57.3	57.3	20:00
		PMI Composite (Jun A)	56.6	56.8	20:00
22 Jun	US	Fed's Consumer Advisory Council Holds Meeting on Home Lending	-	-	01:00
		Leading Indicators (May)	0.3%	-0.5%	02:00
		Philadelphia Fed (Jun)	7.0	4.2	04:00
	NZ	Credit Card Spending (May) – yoy	-	7.8%	15:00
	GE	IFO – Business Climate (Jun)	108.4	108.6	20:00
		IFO – Current Assessment (Jun)	112.2	112.5	20:00
		IFO – Expectations (Jun)	104.7	104.8	20:00
	EU	ECB's Trichet Speaking in Zurich	-	-	20:00
		Industrial New Orders (Apr) – mom	-0.8%	2.7%	21:00
23 Jun	US	Fed's Pinalto Gives Remarks at Bank's Conference	-	-	00:45
	EU	Bank for International Settlements Holds AGM in Basel	-	-	18:00

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

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

NEW ZEALAND DATA WATCH

Key focus over next four weeks: Has the cycle turned? Q2 has started with a soft tone on the retail side, although the housing market still looks firm. The Reserve Bank needs to see a sustained slow-down in growth, which implies such softening extending into the second half of the year.

Date	Data/Event	Economic Signal	Comment
Wed 20 Jun (10.45)	External Migration (May)	Easing	PLT departures have been trending upwards resulting in a fall in the annual net migration inflow. This is likely to continue.
Fri 22 Jun (15.00)	Credit Card Billings (May)	Early signs of stress?	Softness in consumer spending is expected given the tightening in financial conditions.
Wed 27 Jun (01:00)	Westpac Consumer Confidence (Jun qtr)	Down	The recent increases in mortgage rates are expected to have further dented consumer confidence.
Wed 27 Jun (10.45)	Overseas Merchandise Trade (May)	Small surplus	Surging commodity prices will ensure export values remain strong, while higher oil prices will also support import values.
Thu 28 Jun (10.45)	Balance of Payments (Mar qtr)	Improving	A further gradual improvement in the goods and services balance is expected to see the current account deficit fall below 9% of GDP for the first time since September 2005.
Thu 28 Jun (10.45)	Building Consents (May)	Rebound?	The underlying trend in building consents is softening. However, proposed fee increases in July may see builders try to get in before hand and could see a rebound in consent issuance.
Thu 28 Jun (10.45)	Credit Growth (May)	Still strong	Credit has been growing by at least 1 percent per month for the past nine months now. We expect this to continue.
Thu 28 Jun (15.00)	National Bank <i>Business Outlook</i> (Jun)	-	-
Fri 29 Jun (10.45)	Gross Domestic Product (Mar qtr)	Very strong	Momentum from the end of last year has spilled over into Q1. Consumer spending looks likely to lead the way and we are expecting growth of at least 1 percent in the quarter.
Thu 5 Jul (15.00)	ANZ Commodity Price Index (June)	-	-
Tue 10 Jul (10.00)	NZIER QSBO (Jun qtr)	Easing	After three OCR increases by the RBNZ this year and a new post-float high for the currency, we feel business confidence would have suffered in the June quarter.
Fri 13 Jul (10.45)	Retail Trade Survey (May)	Further consolidation	Higher mortgage rates are expected to eat into consumers' disposable incomes. Further consolidation in consumer spending is likely.
On Balance		Mixed	Inflection point?

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SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Apr 07	May 07	18 Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
NZD/USD	0.734	0.733	0.755	0.700	0.650	0.650	0.640	0.630	0.620	0.590
NZD/AUD	0.888	0.888	0.896	0.864	0.802	0.813	0.810	0.829	0.838	0.819
NZD/EUR	0.544	0.542	0.564	0.507	0.478	0.489	0.492	0.496	0.496	0.480
NZD/JPY	87.3	88.5	93.1	82.6	75.4	74.8	73.0	70.6	68.2	64.9
NZD/GBP	0.369	0.369	0.382	0.355	0.333	0.337	0.335	0.333	0.333	0.321
NZ\$ TWI	71.3	71.4	73.6	67.8	63.1	63.5	63.0	62.7	62.1	59.7
NZ interest rates	Apr 07	May 07	18 Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
OCR	7.67	7.85	8.00	8.00	8.00	8.00	8.00	8.00	7.50	6.75
90 day bill	7.98	8.09	8.34	8.20	8.10	8.10	8.10	8.10	7.50	6.80
10 year bond	6.08	6.18	6.86	6.60	6.60	6.60	6.10	6.00	6.10	6.30
International	Apr 07	May 07	18 Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
US Fed funds	5.25	5.25	5.25	5.25	4.75	4.75	4.75	5.00	5.25	5.25
US 3-mth	5.36	5.36	5.36	5.00	4.60	4.75	4.90	5.25	5.40	5.40
AU cash	6.25	6.25	6.25	6.25	6.50	6.50	6.50	6.50	6.50	6.75
AU 3-mth	6.38	6.36	6.41	6.40	6.70	6.70	6.70	6.70	6.80	6.90

KEY RATES

	15 May	11 June	12 June	13 June	14 May	15 June
Official Cash Rate	7.75	8.00	8.00	8.00	8.00	8.00
30 day bank bill	8.00	8.21	8.21	8.21	8.20	8.24
90 day bank bill	8.10	8.33	8.34	8.34	8.34	8.34
NZGB 07/09	7.13	7.36	7.32	7.36	7.32	7.33
NZGB 11/11	6.79	7.17	7.18	7.23	7.20	7.20
NZGB 04/13	6.49	7.05	7.06	7.12	7.10	7.11
NZGB 12/17	6.11	6.79	6.80	6.86	6.84	6.84
1 year swap	8.21	8.46	8.47	8.48	8.45	8.45
2 year swap	8.05	8.42	8.40	8.44	8.39	8.38
5 year swap	7.69	8.14	8.10	8.16	8.11	8.10
RBNZ TWI	71.6	73.3	73.2	73.2	73.3	73.5
NZD/USD	0.7374	0.7520	0.7517	0.7500	0.7507	0.7523
NZD/AUD	0.8857	0.8942	0.8911	0.8913	0.8954	0.8986
NZD/JPY	88.78	91.50	91.46	91.72	92.14	92.53
NZD/GBP	0.3725	0.3823	0.3810	0.3801	0.3805	0.3819
NZD/EUR	0.5444	0.5632	0.5625	0.5636	0.5638	0.5646
AUD/USD	0.8326	0.8410	0.8436	0.8415	0.8384	0.8372
EUR/USD	1.3544	1.3352	1.3364	1.3307	1.3314	1.3324
USD/JPY	120.39	121.68	121.67	122.29	122.74	123.00
GBP/USD	1.9798	1.9669	1.9729	1.9733	1.9727	1.9700
Oil	62.55	64.78	65.93	65.36	66.17	68.04
Gold	669.20	651.45	654.10	647.25	650.60	655.75
Electricity Price Index	8.17	6.26	6.37	6.60	6.62	6.76

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