

# NORMALITY OR THE EYE OF THE STORM?

## CONTENTS

### Page 2: Economic overview

- While some semblance of normality appears to have returned to global financial markets last week, we remain wary of the potential for further fallout from the subprime and credit markets. Given what we see as a fundamental shift in the balance of risks facing the NZ economy, we have brought forward our expectations of when the Reserve Bank will start the easing cycle to March 2008.

### Page 3: Economic comment – milking it update

- Fonterra's announcement of a revised forecast payout of \$6.40/kilogram milk solids (kg ms) is even better news than the May forecast of \$5.53. Indicative international price signals are now a little mixed and maybe, just maybe, they have topped.

### Page 4: Economic comment – the regional gap

- Regional output gap estimates are still positive across all regions and reinforce the broad nature of inflation pressure. Relative to last quarter, capacity pressure has eased across the Central North Island and Canterbury, but intensified in the Bay of Plenty, Wellington and the southern regions.

### Page 5: Interest rate strategy

- With signs of normality returning to global markets, NZ rates are back to trading ranges. Easing of the cash squeeze to see the front end of the curve driven lower, leading to a steepening of the curve.

### Page 6: Interest rate comment – interest rate profile

- We detail our updated interest rate projections following our altered view towards the RBNZ.

### Page 7: Currency strategy

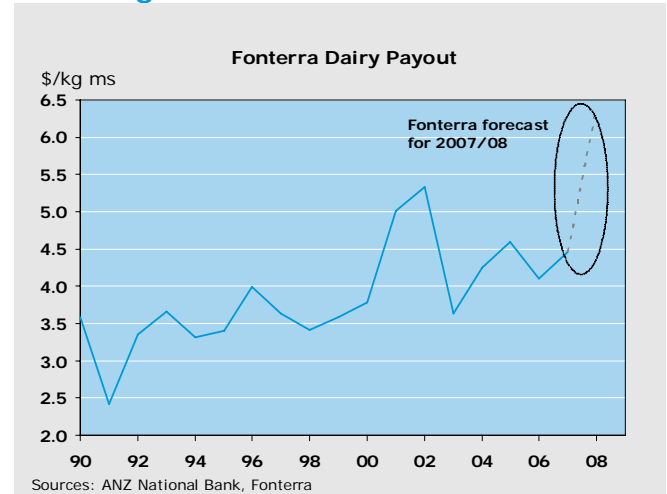
- A tentative move back into more risky assets has helped to underpin the NZD (and other carry currencies) over the past week. Further consolidation and tests higher in the kiwi are to be expected while "normality" prevails.

### Page 8: Data timetable

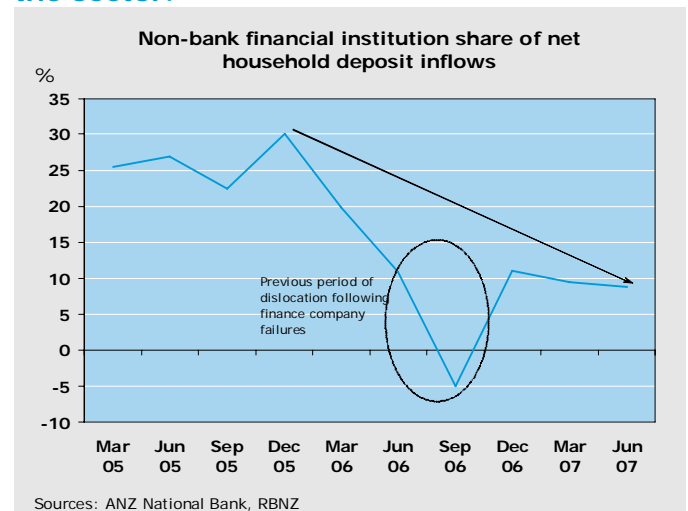
### Page 10: Data watch

### Page 11: Key forecasts

### Fonterra increased their forecast payout for the 2007/08 season from \$5.53 to \$6.40/kg ms.



### NBFIs experiencing reduced investor inflows, leading to liquidity concerns in the sector.



## ECONOMIC OVERVIEW

**While some semblance of normality appears to have returned to global financial markets last week, we remain wary of the potential for further fallout from the subprime and credit markets. Given what we see as a fundamental shift in the balance of risks facing the NZ economy, we have brought forward our expectations of when the Reserve Bank will start the easing cycle to March 2008.**

### What's ahead...

- NZ September quarter RBNZ Survey of Expectations (Tuesday 1500 NZST). The 2-year ahead inflation expectation is forecast to ease slightly, but remain at elevated levels.
- NZ July Building Consents (Thursday 1045 NZST). A large pull-back is expected following the June surge from builders rushing in applications ahead of planned fee increases.
- NZ Credit Growth (Thursday 1500 NZST). A modest easing in credit growth is expected, in line with the easing in July housing activity.
- NZ National Bank *Business Outlook* (Thursday 1500 NZST).

### What's the view

After a tumultuous past few weeks, global financial markets appear to have consolidated early last week and signs of normality started to emerge by late in the week. Investors have even started to put the carry trade back on, sending the NZD above 72 cents against the USD. It would appear that central bank actions thus far have been successful in stabilising the financial system.

The key question is whether the worst is over. Certainly, comments from the ECB and BoJ indicate that they are still set to hike interest rates soon, and other central banks including Chile, China, Norway, South Africa and South Korea have raised their policy rates, a sign that they believe the global financial market volatility will not have lasting impact on real economic growth or inflation. We can perhaps take some comfort from the fact that central banks have confidence the spillover from recent financial market turmoil will be confined largely to the US. However, we remain wary of the potential for further fallout from the subprime and credit markets.

There are further interest rate resets to come in the US subprime mortgage market, which means the potential for more foreclosures and casualties. In any case, the US housing market is set to undergo a protracted adjustment process. Sentiment is still fragile, and calm can quickly turn into fear and panic on the slightest bit of bad news.

We are very much in a transition from a low volatility environment to a more normal one. While volatility has eased over the past week, we note that it is still higher than during the peak of the

February global market correction. Along with the repricing of risk currently underway, we believe there will be an adjustment cost for the NZ economy during this transition. And the impact will be of consequence.

We now see a fundamental shift in the balance of risks facing the NZ economy, which has prompted us to bring forward our expectations of the start of the monetary policy easing cycle to March 2008. Inflation is still a sticking point. But a significant part of the growth in the NZ economy in the past few years has been on the back of leverage, which makes the global repricing of risk a key area to watch. Recent distress across non-bank financial institutions is a potential likely transmission channel through which global financial volatility and altered risk appetites impact on the NZ economy. Although our financial system is fundamentally sound, recent experience shows that events do tend to escalate, particularly when investor confidence disappears. The suspension of Property Finance Group (assets over \$500 million) from the NZAX at the company's request due to liquidity concerns could be a sign of things to come. The credit accelerator – a key source of growth over the past years – could turn into a credit decelerator.

While the economy will continue to benefit from a forecast record dairy payout (with Fonterra announcing an increase in its forecast payout for the 2007/08 season from \$5.53 to \$6.40/kg ms), fiscal stimulus and strong labour market, we are wary of the role that the credit channel of monetary policy could play in acting as a decelerator to growth. Lacking the "credit" fix and rising asset prices, it may well be a case of cold-turkey for some pockets of the economy. Stepping back, we are implicitly making a judgement that the recent signs of softening in the housing market will extend, and accentuate the much-needed consumer consolidation, with imbalances such as a record debt servicing burden (13.7 percent of income) expected to be a progressive drag on activity. Sure, the labour market hasn't turned yet – the so-called pre-condition to a turn in the housing market. But neither has the US equivalent.

Looking at this week, the RBNZ's inflation expectations survey and the National Bank *Business Outlook* will provide glimpses of whether inflation pressure (expectations of them anyway) is starting to subside. They will also show how business sentiment has been affected by last month's OCR hike and recent financial market turmoil. Credit growth and building consents data this week are expected to show further signs of the moderation the RBNZ is looking for.

### Recent data...

- **NZ Credit Card Billings (July)** fell 0.2 percent, following a 2 percent increase in June.
- **NZ Overseas Merchandise Trade (July)**. A deficit of \$791m was recorded for July, bringing the annual trade deficit to \$6,315m.

## MILKING IT UPDATE

**Fonterra's announcement of a revised forecast payout of \$6.40/kg milk solids (kg ms) is even better news than the May forecast of \$5.53. Indicative international price signals are now a little mixed and maybe, just maybe, they have topped.**

### The Forecast

The latest Fonterra dairy payout forecast of \$6.40/kg ms is up \$0.87/kg ms on their May 2007 forecast and up \$1.94/kg ms (44 percent) on the final result for the 2006/07 season (end May). Realisation of the forecast will add around \$200,000 to the top line of the average dairy farm business in 2007/08.

Given a likely conservative policy by Fonterra, the indicative payment likely contains further upside risk. A payment closer to \$7 cannot be ruled out. A lot depends on the path of the New Zealand dollar, with each 1 cent decrease (increase) adding (subtracting) 8 to 10 cents to the payout.

That is good news for the farm business, for the farmers who graze young stock and grow feed for dairy farmers, for the towns and cities providing services to agriculture, and of course for the IRD.

### The Implications

From an economy-wide perspective, the impact is massive. The jump in payout is equivalent to around 1.5 percent of GDP. Admittedly, the net effect of the commodity boom is slightly less (as the terms of trade effect has been mitigated by rising input costs), but it is still huge.

However, dairy farmers will have to work hard to keep all the additional revenue in their pocket. Farm working expenses could be expected to jump by at least 10 to 15 percent. Cost increases will come from combinations of suppliers taking the opportunity to clip the ticket, from genuine cost increases and from farmers spending on "nice to have" developments on the farm to reduce taxation. Demand by dairy farmers will create shortages and prices charged will rise (e.g. tradesmen).

Finally, the average feed bill will increase. Higher revenue and a corresponding increase in land price will add to the number of farmers who have decided to intensify their existing operation by buying more feed rather than expanding land area.

The end net profit will still be very healthy and good planning will be necessary to minimise large swings in provisional and final taxation bills. Income equalisation may get more use than recent times.

Interest in conversion of sheep and beef farms to dairy is already running hot. There appear to be

around 120 conversions on the drawing board or now under action in the South Island. Builders, milking machine manufacturers, stainless steel and refrigeration engineers, concrete companies, quarries, transport, pump and pipe companies etc. will be very busy. There is also a flurry of similar activity in parts of the North Island. The availability of quality resources may limit the number of conversions, particularly in the South Island.

Land values of land suitable for dairying are already on a roll and the increased dairy payout forecast will do nothing to dampen that. The Real Estate Institute median dairy farm land price between June 2006 to June 2007 was up seven percent. The July 2006 to July 2007 equivalent is 18 percent.

What are the longer-term implications for sheep and beef farming systems and the meat industry? It is clear that the number of ewes is declining. How will that effect farming systems on hill country and what are the effects of fewer ewes and more store lambs on finishing country?

### Fonterra Capital

Fonterra needs additional permanent capital. To spend \$5 billion they have to find \$2 billion of their own to maintain balance sheet ratios. That is the equivalent of \$1.60/kg ms over five years or around \$0.30/kg ms per annum. This has to currently come from the net increase in fully shared NZ milk or by retained profits. The high payout provides an opportunity to add capital from retained profits – an action the industry generally has not done historically.

### How Long Will It Last?

The \$64 (or should that be the \$6.4 billion) question.

Forecasts of static production in the EU combined with a reduction in the volume of butter and skim milk powder out to 2010 bode well. The rate of economic growth in Eastern and Asian economies is also very positive.

Indicative international price signals are now a little mixed and maybe, just maybe, they have topped. Butter is still increasing, a contrast to a couple of years ago when the demand for dairy fat was minimal. Cheese is also still increasing in price. Powders appear to have stabilised and whey powder is easing. But prices can ease a fair way and still be very good.

Stepping back, the outlook does appear good. However, we also urge some caution. Strong commodity prices are already built into land valuations. We also ponder about the existence of an information pyramid (i.e. one view gets re-broadcast by more and more people who are seen as credible). We hope the story does not become like Hans Christian Anderson's emperor's clothes!!

## THE REGIONAL GAP

**Regional output gap estimates are still positive across all regions and reinforce the broad nature of inflation pressure. Relative to last quarter, capacity pressure has eased across the Central North Island and Canterbury, but intensified in the Bay of Plenty, Wellington and the southern regions.**

The linkage between excess demand and inflation pressure is well known. As economists, we frequently talk about the “output gap”, noting that when the output gap is positive (i.e. actual economic activity exceeds “potential”), inflation pressures build. The period of strong growth recorded in New Zealand in recent years has seen a positive output gap open up and inflation pressures emerge. The Reserve Bank, seeing these pressures, has tightened monetary policy by raising the Official Cash Rate.

Which part of the country is putting the greatest pressure on inflation or running the largest output gap? Auckland usually gets the blame. An often heard lament south of the Bombay Hill is “why should I have to pay higher interest rates or face a high currency just because Aucklanders like expensive houses?”

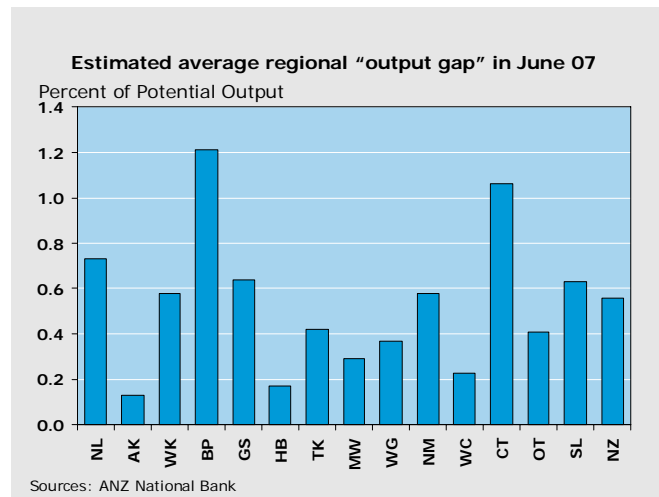
We have updated our regional output gap measures to examine which regions are responsible for the inflation pressures that remain a concern to the Reserve Bank. To refresh readers’ memories, these regional output gaps are estimated using data from the National Bank’s *Regional Trends* and *Business Outlook Survey*, and Statistics New Zealand’s regional unemployment data. These have been generated using estimates of the output gap, unemployment gap (utilising Okun’s Law) and a derived capacity utilisation gap.

We chose a broad approach for two reasons. First it minimises some of the error that may surround simple regional activity statistics (which are only partial indicators). Second, the Reserve Bank uses a similar combination to derive its multivariate filter to generate its measure of the output gap for the entire economy. For each input we use a band pass filter to derive the business cycle – a standard statistical technique that is available on modern statistical software. Individual output gap measures across activity, unemployment and capacity utilisation for each region are then given an equal weighting.

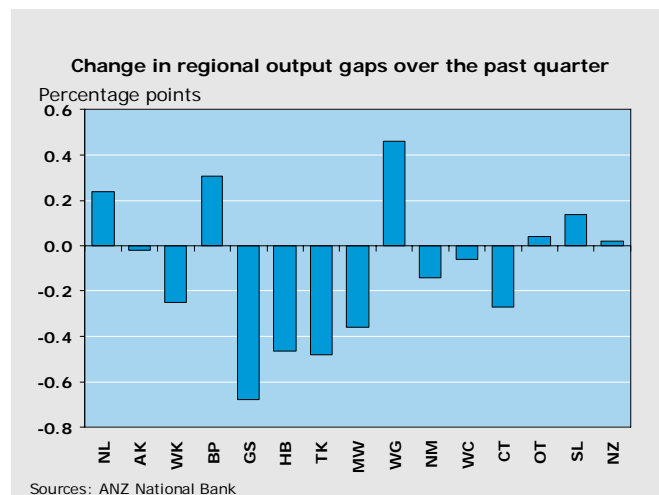
There are 5 key messages from this analysis:

- All regions are still showing excess demand and capacity pressure, and reinforce the broad nature of the inflationary nuances.
- The greatest capacity pressure is not coming from the consumption juggernaut of Auckland, or the state-sector employee capital.

- Heavily rural aligned regions are showing the greatest capacity pressure. In particular, Northland, Waikato, Bay of Plenty, Gisborne, Nelson-Marlborough, Canterbury, and Southland are the regions with the largest output gaps at present.
- A booming dairy payout will likely accentuate or at least elongate capacity pressure across rural aligned regions. This in turn implies other regions will have to carry more of the disinflationary burden via softer growth.



- A number of regions have experienced sharp falls in their output gaps over the June 2007 quarter. This included the Central North Island (sheep-meat?) and Canterbury (manufacturing). However, at the other extreme, capacity pressure intensified in Wellington (government spending) and the deep South. Surprisingly, capacity pressure eased in the dairy juggernaut of the Waikato.



### The upshot

All regions continue to put pressure on resources, although such pressure is more intense across those that are rural aligned. This reinforces the significant role commodity prices have played, and will continue to play in this economic cycle.

## INTEREST RATE STRATEGY

**With signs of normality returning to global markets, NZ rates are back to trading ranges. Easing of the cash squeeze to see the front end of the curve driven lower, leading to a steepening of the curve.**

### Market themes...

- Global liquidity pressure spilled over to NZ, with cash squeeze pushing 90-day rate to 9.2 percent at one stage.
- RBNZ temporarily allows bank bills to be eligible for repo, sending 90-day rate down.
- Market now fully priced for a rate cut by mid-2008. We expect the first cut in March 2008.

### Outlook...

The past week was all about the cash squeeze going on in the NZ cash market. With financial institutions placing a premium on holding cash in the current environment, the demand for bank bills has fallen away. This resulted in a sharp spike up in the 90-day bank bill rate to as high as 9.2 percent at one stage on Wednesday. The RBNZ moved to ease the liquidity pressure by temporarily allowing bank bills to be used for repo, causing the 90-day to rally.

However, the spread over the cash rate remains relatively high at 33bps, particularly since the market is convinced that the RBNZ is done tightening for this cycle, and have started to price in easings from late this year. The market has almost a 50 percent chance of a rate cut for March 2008 priced in, with a 25bps cut fully priced in by June 2008. Our own core economic view is for the easing cycle to begin in March 2008.

With the carry cost diminishing courtesy of the rally in the 90-day and the market looking for easings, the 2-year swap yield is now at the bottom of its recent 8.3 to 8.5 percent trading range. We expect the front end of the curve to move lower as the cash squeeze continues to ease. With the global bias still to pay longer spreads, this will lead to a steepening in the 2s10s curve, which has been trapped at the bottom of its range for some time.

Despite some normality returning to global financial markets, there is still potential for further volatility to spill over into the local market. This week is a busy one for Japanese and European economic data, though it will still be how US markets fare that will drive overall sentiment. Further signs that liquidity pressures are subsiding mean there is less likelihood that the Fed will cut interest rates before their scheduled FOMC meeting on September 18. This will see US yields drift slightly higher as the safe-haven flows into bonds reverse.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔	RBNZ in neutral mode. Lack of inflation headroom make near-term easings unlikely but balance of risk starting to shift towards lower rates.
NZ data	↔/↓	Data this week to show further signs of moderation in credit growth and building activity.
Fed Funds/front end	↔/↓	Emergency rate cut from the Fed unlikely given stability in financial markets. But a cut to the Fed funds rate on 18 September still on.
RBA	↔/↑	RBA still likely to hike but global developments mean the hurdle will be very high.
US 10 year	↔	Safe haven flows slowing as some normality return to markets.
NZ swap spreads	↓	Spreads to contract as global credit concerns and local cash squeeze eases.
Flow	↔	Volatility through global markets will continue to dictate direction of the local curve.
Technicals	↔/↓	The technical picture is clouded by global financial volatility at present.

### Borrowing strategies we favour at present

Yields continue to head lower following offshore moves. This move allows clients with fixed rates maturing in 2008/09 to forward fix interest rates at attractive levels as the yield curve has steeped and inverted further. This dip in yields also presents clients who have floating debt to add cover at attractive levels as the saving between floating and the 2 - 5 year fixed rates has increased.

### Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 13-Sep-07	0	0
Thu 25-Oct-07	0	-4
Thu 6-Dec-07	0	-8
Thu 24-Jan-08	-40	-36
Thu 6-Mar-08	-40	-48
Thu 24-Apr-08	-80	-72
Thu 5-Jun-08	-80	-128

### Trading themes we favour at present

The front end of the curve is expected to drive down due to easing of the cash squeeze sending the 90-day rate down. However, the global bias to pay longer spreads should see the curve correct (steepen) somewhat as the 2-year sway yields fall.

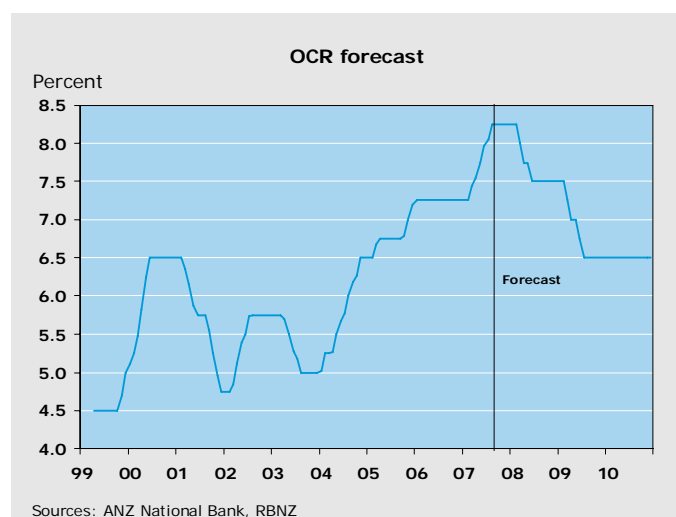
## INTEREST RATE PROFILE

### We detail our updated interest rate projections following our altered view towards the RBNZ.

We consider the changed global environment of the past few weeks has fundamentally shifted the balance of risks facing the New Zealand economy. Our late 2008/early 2009 easing cycle view was implicitly a recognition that, in the absence of a significant development, rates were likely to be held higher for longer.

In light of the altered risk profile, we have brought forward our expectations of the timing of the easing cycle. Looking at the broad spirit of our forecasts:

- We are looking at three 25bps cuts to the OCR in March, April and June 2008. This stage of the easing cycle merely removes most of the late cycle tightening of 2007.
- We expect the Reserve Bank to pause over the second half of 2008 to assess the dataflow, before resuming the easing cycle from early 2009. At this stage, we have pencilled in the second easing cycle to start from March 2009, taking the OCR down to 6.5 percent.
- The support being lent by commodity prices and fiscal policy are reasons for the pause in the easing cycle. We suspect the Reserve Bank will be wary of easing too much too soon given the prospect of a large fiscal stimulus in the 2008 *Budget*. High dairy incomes courtesy of the 2007/08 season payout will also continue to prop up the rural regions into mid-year.



Monetary policy settings have been in a contractionary stance for a period of time. Consumer spending and housing market activity, the key areas the Reserve Bank is seeking to quell, are finally showing firm evidence of moderating. The big unknown at present is the degree of non-linearity in the household sector in relation to debt levels. Households have shown remarkable

resilience so far in the face of rising interest rates, but the risk is increasing for a tipping point in the near future. The combination of record leverage (debt equivalent to 161 percent of income), rising debt servicing burden (13.7 percent of income), losses from exposure to non-bank financial institutions (up to \$1 billion so far), the drying up of credit and easing house prices – all hitting at around the same time – has the potential to see quite an abrupt adjustment in the household sector.

Ultimately, the Reserve Bank's main concern is ensuring that inflation remains comfortably within the 1 to 3 percent target band. The recent decline in the currency, if sustained, will add further tradable inflation pressure and increases the chance of headline inflation going above 3 percent early next year. But the Reserve Bank will look through the first round impact of a lower currency and focus instead on non-tradable inflation.

Growth is set to take a step change from strong momentum in the first half of this year to close to stall speed in the second half – led by a weakening in domestic demand. This will start to see non-tradable inflation ease – led by housing related inflation.

The easing cycle we have built into our forecasts needs to be put in perspective. The OCR at 6.5 percent is what we would consider to be the upper-end of any perceived neutral rate for monetary policy. Conditions will remain mildly restrictive when looking at interest rate levels relative to their decade averages.

**NZ Interest Rate Forecasts (quarter averages)**

	OCR	90-day bank bills	2-year swap rate	3-year swap rate	5-year swap rate
Mar-07	7.4	7.8	7.7	7.6	7.4
Jun-07	7.9	8.1	8.1	8.0	7.8
Sep-07	8.2	8.5	8.4	8.2	8.0
Dec-07	8.3	8.5	8.3	8.2	7.8
Mar-08	8.2	8.2	8.1	8.0	7.7
Jun-08	7.7	7.8	7.8	7.7	7.5
Sep-08	7.5	7.7	7.7	7.6	7.4
Dec-08	7.5	7.7	7.6	7.6	7.5
Mar-09	7.4	7.4	7.4	7.4	7.4
Jun-09	6.9	6.9	7.1	7.1	7.2
Sep-09	6.5	6.7	7.0	7.1	7.2
Dec-09	6.5	6.7	6.9	7.0	7.2
Mar-10	6.5	6.7	6.9	7.0	7.1
Jun-10	6.5	6.7	6.9	7.0	7.1
Sep-10	6.5	6.7	6.9	6.9	6.9
Dec-10	6.5	6.7	6.8	6.9	6.8
Decade average	6.1	6.4	6.7	6.8	6.9

## CURRENCY STRATEGY

**A tentative move back into more risky assets has helped to underpin the NZD (and other carry currencies) over the past week. Further consolidation and tests higher in the kiwi are to be expected while “normality” prevails.**

### Market themes...

- Fed's moves calm markets and see a tentative return to riskier assets.
- Expect further upside while calm prevails.

### Outlook...

The US Federal Reserve's decision to cut their discount rate a week ago appears to have been successful (for now at least) in calming market nerves. As well as providing cheaper and easier access to liquidity, the accompanying statement from the Fed has left the market increasingly convinced that the Fed Funds target rate would be cut at their 18 September meeting. The cut to the discount rate has also encouraged US banks to borrow from the Fed as an alternative (which the four largest US banks have now done on behalf of clients), and in conjunction with additions of liquidity to the banking system, appears to have seen off a pending liquidity crisis. Bank of America's US\$2b injection into Countrywide also gave hope that the worst was behind the market.

As a result, there has been a return to more normal trading conditions, and investors are starting to dip their toes back into riskier assets. The S&P VIX index has backed off its mid-August highs, the US equity market recovered from its lows, and carry trades have rebounded, pushing the NZD back above US\$0.72.

The rebound in the NZD that we have seen over the past week was to be expected given that the slide was overdone. There are good reasons to believe that carry trades will not perform as they did following the February/March stock market sell-off with the market remaining edgy and probably still more de-leveraging of carry trades to come as investors cover losses elsewhere. But the past week has seen growing signs of demand returning (particularly on the NZD/JPY cross), a US dollar that is struggling, and one of two big eurokiwi/uridashi maturity months behind us. In such an environment, further pushes higher cannot be discounted.

Technically, we expect to see a period of consolidation for the NZD while risk aversion eases. A combination of the 200 day moving average and 38.2 percent Fibonacci retracement of the move from 0.8100 to 0.6650 make the 0.7210-0.7220 region pivotal from a technical perspective. This should now provide support for tests to the upside. The NZD/AUD is now being supported by its 200

hour moving average and a retracement to 0.8827 is on the cards, although sellers around 0.8760 are capping the topside at present.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↔/↑	Yields converged last week but still favour NZ.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Aussie ahead of us in the terms of trade cycle.
Technicals	↔	Range between moving averages.
Sentiment	↔	Is the worst over?
Other	↔	Big maturities of dual currency bonds completed until October.
<b>On balance</b>	↓	<b>0.8850 top for moves lower.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↔	Suggestion the flow of money is finally leaving the USA will support NZD.
Yield	↑	Yield differential widening on credit concerns.
Commodities	↑	Higher commodity prices remain supportive. Fonterra announcement was expected, but still nice.
Risk aversion	↔	Worst behind us or eye of the hurricane?
Partial indicators	↔	Neutral here.
Technicals	↑	This week is important for direction. 0.7220 (200 day m.a.) should provide base for tests higher.
AUD	↑	Fundamentals solid across the Tasman. AUD doing well.
Sentiment	↔	Is the worst over?
Other	↔	Massive volatility negates carry benefit but calmer waters see renewed interest.
<b>On balance</b>	↔	<b>Wait and see this week - fairly priced to us.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
Aug 27	UK	UK markets closed for the Summer Bank Holiday	-	-	-
Aug 28	<b>NZ</b>	<b>RBNZ Survey of Expectations (3Q) – 2-year ahead inflation</b>	-	<b>2.6%</b>	<b>15:00</b>
	EC	ECB President Trichet speaks on productivity and monetary policy in Budapest	-	-	01:00
	US	Existing Home Sales (Jul)	5.70m	5.75m	02:00
		Existing Home Sales (Jul) - mom	-0.9%	-3.8%	02:00
	GE	IFO – Business Climate (Aug)	105.2	106.4	20:00
		IFO – Current Assessment (Aug)	110.5	111.3	20:00
		IFO – Expectations (Aug)	100.3	101.8	20:00
	JN	BoJ Monetary Policy Meeting Minutes for July	-	-	11:50
	EC	Euro-zone M3 sa (Jul) - yoy	11.2%	10.9%	20:00
		Euro-zone M3 sa 3 mth ave (Jul) - yoy	10.9%	10.6%	20:00
Aug 29	AU	Construction Work Done (2Q)	2.0%	2.7%	13:30
	JN	BoJ Deputy Governor Muto speaks at Economic Forum in Beijing	-	-	03:00
	EC	ECB's Tumpel-Gugerell speaks in Alpbach	-	-	19:00
	US	Consumer Confidence (Aug)	105.0	112.6	02:00
		Richmond Fed Manufacturing Index (Aug)	-	4	02:00
		Minutes of August 7 FOMC Meeting	-	-	06:00
	GE	Consumer Price Index (Aug P) - mom	-0.1%	0.4%	00:00
		Consumer Price Index (Aug P) - yoy	1.9%	1.9%	00:00
		GfK Consumer Confidence (Sep)	8.7	8.7	18:10
Aug 30	<b>NZ</b>	<b>Building Consents (Jul)</b>	-	<b>15.8%</b>	<b>10:45</b>
		<b>National Bank Business Confidence (Aug)</b>	-	<b>-38.5</b>	<b>15:00</b>
		<b>Credit Growth (Jul)</b>	-	-	<b>15:00</b>
	AU	Private Capital Expenditure (2Q)	2.0%	9.1%	13:30
		Current Account Balance (2Q)	-15.7B	-15.4B	13:30
	UK	Nationwide House Prices sa (Aug) - mom	0.4%	0.1%	18:00
		Nationwide House Prices (Aug) - yoy	6.9%	9.9%	18:00
		M4 Money Supply (Jul F) - mom	-	1.0%	20:30
		M4 Money Supply (Jul F) - yoy	-	13.0%	20:30
	GE	Retail Sales (Jul) - mom	0.6%	0.7%	
		Retail Sales (Jul) - yoy	-0.9%	-0.8%	
		ILO Unemployment Rate (Jul)	-	6.3%	18:00
		Unemployment Change (Aug) – 000's	-40k	-45k	19:55
		Unemployment Rate (Aug)	8.9%	9.0%	19:55
	JN	Retail Trade (Jul) - mom	-	-0.8%	11:50
		Retail Trade (Jul) - yoy	-1.0%	-0.4%	11:50
		BoJ's Mizuno speaks at Financial Conference in Yamanashi	-	-	13:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
Aug 31	AU	Retail Sales (Jul)	0.6%	1.4%	13:30
		Trade Balance (Jul)	1.00B	-1.75B	13:30
		Imports (Jul)	-	19713m	13:30
		Exports (Jul)	-	17962m	13:30
		Private Sector Credit (Jul) - mom	1.0%	1.8%	13:30
		Private Sector Credit (Jul) - yoy	-	15.4%	13:30
	US	Initial Jobless Claims (Aug 26)	320k	322k	00:30
		Continuing Claims (Aug 19)	2570k	2572k	00:30
		GDP Annualised (2Q P)	4.0%	3.4%	00:30
		Personal Consumption (2Q P)	-	1.3%	00:30
		GDP Price Index (2Q P)	2.7%	2.7%	00:30
		Core PCE (2Q P) - qoq	1.4%	1.4%	00:30
		House Price Index (2Q) - qoq	-	0.5%	02:00
	JN	Jobless Rate (Jul)	3.7%	3.7%	11:30
		Tokyo CPI (Aug) - yoy	-0.2%	-0.1%	11:30
		Tokyo CPI ex-fresh food (Aug) - yoy	-0.1%	-0.1%	11:30
		National CPI (Aug) - yoy	-0.1%	-0.2%	11:30
		National CPI ex-fresh food (Aug) - yoy	-0.1%	-0.1%	11:30
		Industrial Production (Jul P) - mom	-0.2%	1.3%	11:50
		Industrial Production (Jul P) - yoy	3.3%	1.1%	11:50
	EC	Euro-zone Consumer Confidence (Aug)	-3	-2	21:00
		Euro-zone Unemployment Rate (Jul)	6.9%	6.9%	21:00
		Euro-zone CPI (Aug) - yoy	1.8%	1.8%	21:00
		Euro-zone economic confidence (Aug)	110.2	111.0	21:00
Sep 1	US	Personal Income (Jul)	0.3%	0.4%	00:30
		Personal Spending (Jul)	0.4%	0.1%	00:30
		PCE Deflator (Jul) - yoy	-	2.3%	00:30
		PCE Core (Jul) - mom	0.2%	0.1%	00:30
		PCE Core (Jul) - yoy	2.0%	1.9%	00:30
		Chicago Purchasing Manager (Aug)	52.6	53.4	01:45
		Factory Orders (Jul)	0.7%	0.6%	02:00
		Univ. of Michigan Consumer Confidence (Aug F)	83.2	83.3	02:00
		Fed Chairman Bernanke speaks at Fed Symposium in Jackson Hole, Wyoming	-	-	02:00

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

Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. (Note: all surveys are preliminary and subject to change).

## NEW ZEALAND DATA WATCH

**Key focus over the next four weeks:** Further signs of softening growth for Q3 will start to emerge in the partial indicators. The RBNZ's September *MPS* is expected to highlight increased uncertainty about the economic outlook and a downgrading of growth projections, which markets will take to prod an easing theme.

Date	Data/Event	Economic Signal	Comment
Tue 28 Aug (15.00)	RBNZ Survey of Expectations (Q3)	Easing but still elevated	We expect 2-year ahead inflation expectations to ease slightly, but still remain at elevated levels.
Thu 30 Aug (10.45)	Building Consents (July)	Pull-back	After a strong increase in June due to builders rushing to get applications in prior to fee increases, we expect a considerable pull-back this month.
Thu 30 Aug (15.00)	Credit Growth (July)	Moderating	Total household claims have been growing around 1 percent since 2002. They rose 1.1 percent in June, although we expect this to have eased in July, albeit modestly.
Thu 30 Aug (15.00)	National Bank <i>Business Outlook</i> (Aug)	-	-
Thu 6 Sep (10.45)	Wholesale Trade Survey (Jun qtr)	Flat	We expect flat quarterly retail sales growth in June after the strong increase in March. Wholesale trade is expected to mirror this pattern.
Thu 6 Sep (15.00)	ANZ Commodity Price Index (Aug)	-	-
Fri 7 Sep (10.45)	Value of Building Work Put in Place (Jun qtr)	Holding up	Residential work put in place to post a rebound following Q1's fall. Non-residential work put in place to remain elevated.
Circa 10 Sep	REINZ Housing Report (Aug)	Softening	Further signs of softening are expected in August with interest rate increases this year now fully manifesting.
Tue 11 Sep (10.45)	Overseas Trade Indices (Jun qtr)	Terms of trade up	Strong increases in commodity prices, particularly dairy, are expected to contribute to a large increase in the terms of trade.
Thu 13 Sep (09.00)	Reserve Bank <i>Monetary Policy Statement</i>	On hold	The RBNZ is in neutral mode, signalling that they believe they have done enough to contain inflation. There are early signs that the economy is turning and recent developments in global financial markets make a rate hike unlikely.
Thu 13 Sep (10.45)	Retail Trade (Jul)	Soft	Another soft month expected, pointing to ongoing moderation in consumer spending.
Fri 14 Sep (10.45)	Economic Survey of Manufacturing (Jun qtr)	Modest	Based on the PMI, we are expecting modest growth in production volumes.
Thu 20 Sep (10.45)	Balance of Payments (Jun qtr)	Modest improvement	We expect the annual current account deficit to show a modest improvement, but the quarterly seasonally adjusted deficit to worsen.
Fri 21 Sep (10.45)	External Migration (Aug)	Easing	Another modest monthly net gain expected, but the annual net migration total to continue easing.
Fri 21 Sep (15.00)	Credit Card Billings (Aug)	Moderation	A modest rebound expected following July's decline, but the overall direction is for further moderation in consumer spending.
<b>On Balance</b>		<b>Slowing</b>	<b>Dairy versus housing. We are backing the latter.</b>

### NZ Economics

**Cameron Bagrie**  
Chief Economist  
+64 4 802 2212

**Khoon Goh**  
Interest Rate Strategist  
+64 4 802 2357

**Sean Comber**  
Economist  
+64 4 802 2286

**Steve Edwards**  
Economist  
+64 4 802 2217

**Philip Borkin**  
Economist  
+64 4 802 2199

**Kevin Wilson**  
Rural Economist  
+64 4 802 2361

## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jun 07	Jul 07	27 Aug 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
NZD/USD	0.756	0.786	0.725	0.710	0.680	0.650	0.620	0.620	0.610	0.590
NZD/AUD	0.898	0.907	0.874	0.866	0.829	0.783	0.765	0.775	0.782	0.776
NZD/EUR	0.563	0.573	0.530	0.514	0.496	0.478	0.463	0.470	0.469	0.465
NZD/JPY	92.6	95.6	84.5	83.1	80.2	77.4	74.4	74.4	72.0	69.6
NZD/GBP	0.380	0.386	0.360	0.355	0.342	0.332	0.320	0.323	0.323	0.316
NZ\$ TWI	73.7	75.6	69.8	68.5	65.8	63.0	60.8	61.2	60.6	59.3
NZ interest rates	Jun 07	Jul 07	27 Aug 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
OCR	8.07	8.18	8.25	8.25	8.25	8.00	7.50	7.50	7.50	7.25
90 day bill	8.32	8.44	8.58	8.50	8.50	8.00	7.70	7.70	7.70	7.20
10 year bond	6.73	6.79	6.47	6.50	6.50	6.40	6.30	6.50	6.60	6.70
International	Jun 07	Jul 07	27 Aug 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
US Fed funds	5.25	5.25	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.50
US 3-mth	5.36	5.36	5.51	5.25	5.00	5.15	5.25	5.25	5.50	5.75
AU cash	6.25	6.25	6.25	6.50	6.50	6.75	6.75	6.75	6.75	6.75
AU 3-mth	6.44	6.62	6.79	6.70	6.70	6.90	6.90	6.90	6.90	6.90

## KEY RATES

	24 Jul	20 Aug	21 Aug	22 Aug	23 Aug	24 Aug
Official Cash Rate	8.00	8.25	8.25	8.25	8.25	8.25
30 day bank bill	8.34	8.95	9.02	9.15	8.75	8.65
90 day bank bill	8.46	8.98	9.05	9.14	8.80	8.68
NZGB 07/09	7.80	7.42	7.15	7.13	7.44	7.47
NZGB 11/11	7.42	6.89	6.73	6.71	6.93	6.96
NZGB 04/13	7.25	6.76	6.60	6.61	6.78	6.82
NZGB 12/17	6.84	6.27	6.20	6.22	6.39	6.44
1 year swap	8.59	8.63	8.65	8.68	8.62	8.51
2 year swap	8.47	8.36	8.39	8.38	8.37	8.34
5 year swap	8.10	7.96	7.96	7.94	7.93	7.91
RBNZ TWI	77.0	67.2	67.6	67.1	68.9	68.8
NZD/USD	0.8088	0.6915	0.6968	0.6915	0.7123	0.7123
NZD/AUD	0.9141	0.8682	0.8674	0.8644	0.8741	0.8681
NZD/JPY	97.48	79.16	80.14	79.07	82.58	82.71
NZD/GBP	0.3919	0.3492	0.3506	0.3489	0.3567	0.3555
NZD/EUR	0.5851	0.5123	0.5170	0.5136	0.5256	0.5250
AUD/USD	0.8848	0.7965	0.8033	0.8000	0.8149	0.8205
EUR/USD	1.3823	1.3498	1.3477	1.3465	1.3551	1.3567
USD/JPY	120.53	114.48	115.01	114.34	115.94	116.12
GBP/USD	2.0639	1.9804	1.9873	1.9820	1.9968	2.0038
Oil	74.65	71.90	71.12	69.49	69.86	71.17
Gold	682.15	656.00	659.30	655.70	659.45	668.30
Electricity Price Index	6.91	5.36	5.34	5.32	5.13	5.05

**Disclaimer**

This document has been prepared by ANZ National Bank Limited (the "Bank"), is provided for informational purposes only and does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this document can be reproduced, altered, transmitted to, copied to or distributed to any other person without the prior express permission of the Bank.

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this document. Neither the Bank nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.

ANZ Bank, Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-802 2024  
<http://www.anz.com/nz> e-mail [ecnmcs@anz.com](mailto:ecnmcs@anz.com)