

# NEW ZEALAND ECONOMICS MARKET FOCUS

12 December 2011

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## STRUCTURAL GUIDANCE

### ECONOMIC OVERVIEW

The EU summit has been and gone, and unsurprising to us, little has changed. The deleveraging dynamic nations are now facing must be matched by a drop in living standards in Europe. In this environment, OCR increases remain a long way off, but the hurdle to OCR cuts remains high. This week's cyclical barometers play second fiddle to a key structural gauge, the household saving rate for 2010/11. We expect the first positive read for household saving since 1992/93, but the need to rebuild saving further will continue to structurally cap the spending side of the economy for a few more years to come.

### NZD END OF YEAR IMPACT

The NZD tends to exhibit a strong seasonal pattern over the quiet mid-December to mid-January period. Since the float, the NZDUSD has averaged a 1.5 percent increase over that period, with increases recorded in 20 of the past 26 years. From mid-January till the end of that month, the NZD tends to fall as the end of year effect unwinds. While historical performance is no guarantee of future performance, the simple arithmetic average is worthy of note over the liquidity-constrained Christmas period.

### MONTHLY INFLATION GAUGE

Our Monthly Inflation Gauge rose 0.3 percent in November, after a 0.1 percent increase in October. Our gauge suggests a soft non-tradable Q4 CPI print is in prospect, although focus will remain on longer-term term drivers of inflation.

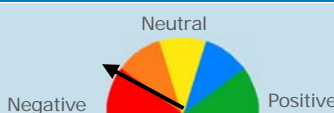
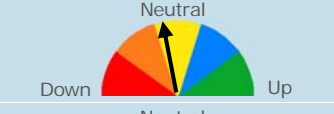

### INTEREST RATE STRATEGY

Given that the RBNZ published a weak global outlook scenario showing a flat 90-day interest rate track, the theme "lower for longer" seems to be gathering traction and is unlikely to subside into year end. While reaction to the EU summit to date has been positive, it remains to be seen whether any risk recovery can survive right through to year end.

### CURRENCY STRATEGY

The market has initially taken the EU summit as positive, but question marks are now starting to emerge. Brace for brinkmanship between the politicians and the ECB. Expect a "disappointment" tone across FX trading to dominate the week. Local considerations such as the RBNZ will play second fiddle.

### THE ANZ HEATMAP

Variable	12 mth view	Comment	Risk profile
GDP	2.5%	Respectable but grumpy growth. Downside risks.	
OCR	No change	OCR low for longer as opposed to outright lower	
CPI	2.6%	Benign but some medium-term inflation drivers remain sticky.	

# ECONOMIC OVERVIEW

## SUMMARY

The EU summit has been and gone, and unsurprising to us, little has fundamentally changed. The deleveraging dynamic nations are now facing must be matched by a drop in living standards. All policymakers have the power to do is determine whether the adjustment is voluntary and orderly, or disorderly. There are no easy choices. This reality is where the economic risk profile skews from. In this environment, OCR increases remain a long way off, but the hurdle to OCR cuts remains high. This week's cyclical barometers play second fiddle to a key structural gauge, the household saving rate for 2010/11. We expect the first positive read for household saving since 1992/93, but the need to rebuild saving further will continue to structurally cap the spending side of the economy for a few more years to come.

## FORTHCOMING EVENTS

**SNZ Food Price Index - November** (Tuesday, 13 December, 10:45am). We expect a 0.2 percent increase, with higher meat prices offsetting further falls for fruit and vegetables.

**BNZ Business NZ Manufacturing PMI** (Thursday, 15 October, 10:30am). Another sub-50 print is in prospect, although we expect a climb from the 46.5 level recorded in October.

**SNZ Institutional Accounts - 2008/09** (Thursday, 15 October, 10:45am). Institutional sector accounts up to 2008/09 will be released, but household data for the 2010/11 year is expected to show positive household saving of around \$1bn.

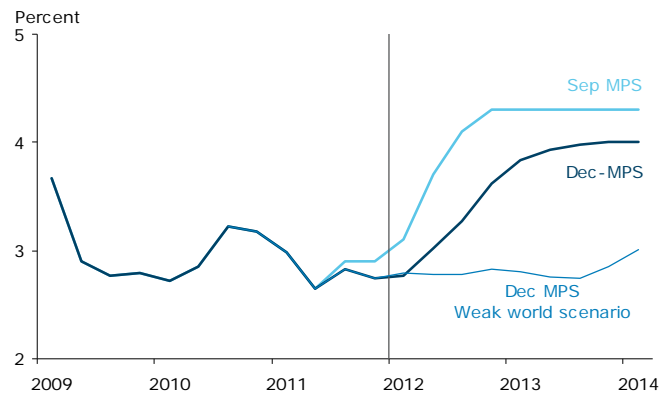
**ANZ Job Ads – November** (Thursday, 15 December, 1:00pm).

## WHAT'S THE VIEW

We'll start this week with the obvious question: has anything fundamentally changed?

- The RBNZ **kicked for touch any idea of rate hikes but also implicitly downplayed the idea of rate cuts** with their downside scenario producing a flat 90-day trajectory.

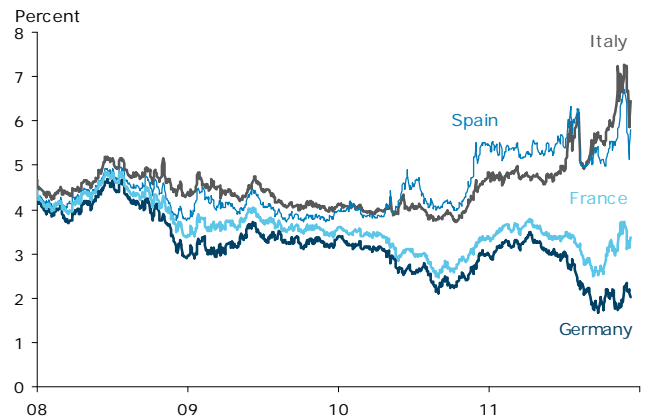
Published MPS 90-day track



Sources: ANZ, National Bank, RBNZ

- **Interest rate cuts by the RBA and ECB last week tell you something about the global environment we are now in.** The ECB rate cut and provision of more liquidity provided a welcome reprieve. However, a host of central banks didn't move, so the RBNZ is in fact in the mainstream pack as opposed to out of it. The ECB is firmly focused on implementing solutions in areas within its domain.
- **The EU leader summit has been and gone. Progress, yes. Full-blown solutions, no.** Brace for more of the same over the months ahead. It's inevitable when you try to corral numerous people (in fact entire countries!) into common ground. The inevitable deleveraging dynamic nations are now facing must be matched by a drop in living standards: all policymakers have the power to do is determine whether the adjustment is voluntary and orderly, or disorderly. This means there are no easy political choices.

10-year Government bond yields



Sources: ANZ, National Bank, Bloomberg

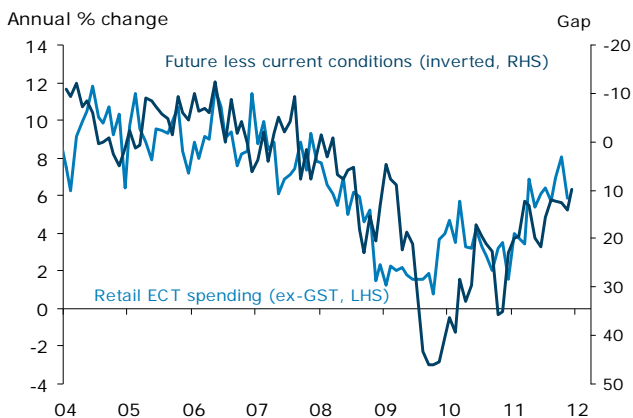
- **Markets lack conviction.** Even during periods of risk-on and hope, there is always something that looks peculiar or odd like bill-libor spreads. Credit

# ECONOMIC OVERVIEW

and money markets continue to take a more cautious assessment of development. The mere fact you are seeing movements in Italian bond yields of down 50 basis points one night and then the reverse the following night tells you something about the substance behind market movements. There is none! Viewing market pricing over a longer time period highlights the challenges being faced.

**For us, this combination merely confirms the spirit of our existing view as opposed to having us reassessing.** Europe's sovereign issues have long been regular features, along with the inevitable political song and dance that comes with addressing solvency. For NZ, this backdrop skews the risk profile and continues to have us watching the 6 C's, namely the credibility of government, confidence, commodity prices, China, cost of funds and the currency. Another week and we've seen a mixture of good (i.e. 2.6 percent lift in dairy trade prices in the GlobalDairyTrade auction), average (an easing in consumer confidence, evidence of a post-Rugby World Cup pullback in card spending, last week's bond tender) and alert factors (funding markets are still pretty well frozen). Our heatmap on page 1 synthesises things nicely. We are expecting a stop-start quarterly growth profile over the next 12 months, with the worsening global outlook more likely to contribute to a weaker activity outlook. However, barring global meltdown an OCR cut is off the radar.

**Retail ECT spending and the "expectations gap"**

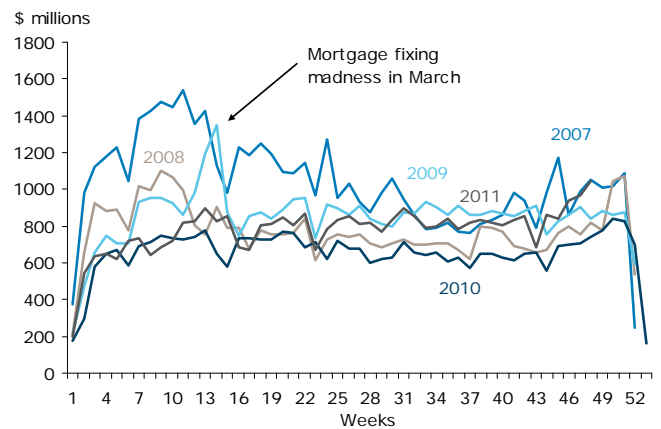


Sources: ANZ, National Bank, RBNZ, Statistics NZ

Looking to the week ahead, **this week's food prices data is expected to provide another soft read.** As our November Monthly Inflation Gauge on page 9 shows, the short-term inflation outlook remains benign, with little evidence of past cost-push factors seeping into wage and price setting.

**With the OCR set to remain on hold, some sectors will benefit more than others.** Last week's data provided confirmation of a strengthening in housing market activity, both in terms of REINZ figures but also the more timely weekly mortgage approval numbers. There is still passive monetary policy stimulus hitting the economy with the effective borrowing rate dropping. Keeping the OCR lower for longer is supposed to see this sort of response: it's a sign monetary policy has some teeth! It was only four months ago everyone thought the RBNZ would be taking back March's 50 basis points insurance cut. Now the OCR rates look set to stay on hold 12 months beyond that. That's around \$800m less each year in debt servicing (household deposit holders will not be pleased). Little wonder, then, that some of it is finding its way back into property. **However, there are also tension points here and we're in no doubt the RBNZ would not want to see the property market getting up too much of a head of steam.**

**Weekly value of housing loan approvals**



Sources: ANZ, National Bank, RBNZ

**Any tick-up in interest rate sensitive momentum faces a structural cap on it. This is a key judgement and no doubt we'll see some tension around it.** We've now seen house prices in Auckland push through their prior peak, with debate about whether this will mark a return to the old borrow and spend mentality. Our consumer confidence survey saw two year ahead average house price expectations pick up, and we note the RBNZ has introduced a new survey on year-ahead house price expectations to monitor this (2.5 percent for November 2011). Housing bulls point to a likely shortage of housing to back up their view.

**Why then do we favour the structural cap approach?**

- **The deleveraging dynamic looks more firmly engrained in the national psyche.** Witness continued uptake rates to KiwiSaver and more



## ECONOMIC OVERVIEW

open debate about lifting the retirement age. The fact New Zealand's politicians are pretty well all pitching as being fiscally responsible tells us something about where they see the mood.

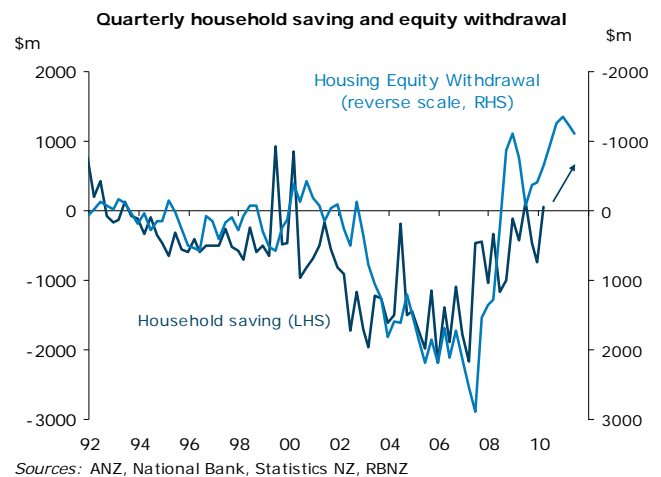
- **Consumer confidence remains restrained.** It's not poor but certainly subdued, and the current expectations component (which is correlated with spending) has been flatlining around 100 for a number of years now.
- **The shortage of housing argument appeals, but has flaws.** Small changes in the average number of people per house (that ratio is rising) can quickly absorb the so-called shortage. Supply-demand analysis needs to be cumulative as opposed to static. With the exception of Auckland and Christchurch (depopulation assumptions aside), the remainder of New Zealand has an excess supply of housing.
- **We're not seeing much credit growth,** and if we were, the RBNZ's new core funding ratio would help dampen some of the excess demand anyway. The borrowing yield curve remains upward sloping beyond 6-months, with nowhere to hide.
- **The national balance sheet demands it.** A net external liability position of 70 percent of GDP is better than it was (it peaked at 85 percent) but is still poor.

This backdrop of tension between structural and cyclical forces in areas such as housing brings us to **probably one of the most important statistics of the year: estimates for the March 2011 household income and outlay accounts.** The statistics have flaws and holes which we need to acknowledge but we still view it as a critical piece of information. Why is it so important?

- Progress on **addressing structural weaknesses is a precursor to a traditional cyclical recovery taking hold.** Structural indicators of the economy need to take on a far more prominent role. Too often we see analysis merely contained to cyclical barometers.
- It's a **roadmap** as to how much of the **deleveraging** journey has been **undertaken and how much we have to go.** With the household saving rate approaching -10 percent of household disposable income in 2002/03, and probably needing to get into the +5-10 percent zone, we suspect we're only about two-thirds through the journey. Our quarterly estimates suggest households have been making inroads into improving saving, with annual household positive saving of around \$1bn in 2010/11 expected, the

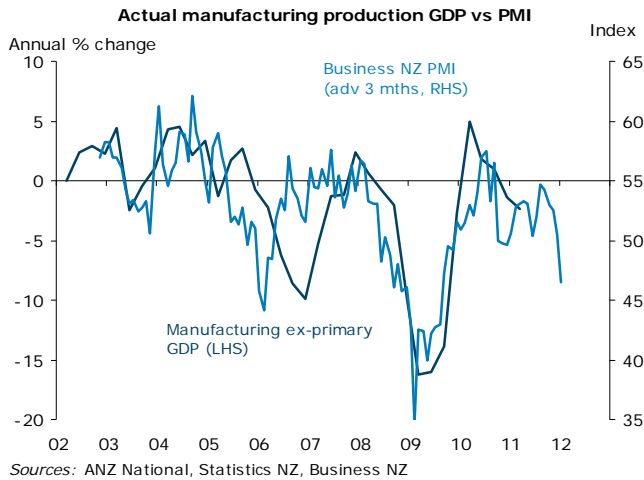
first positive annual household saving since 1992/93.

- It will provide information on **how the deleveraging is taking place: both through income generation and spending restraint.** We expect it will be more of the former, with the income tax cuts boosting disposable income growth to 6 percent in 2010/11, while household consumption probably managed around 4 percent growth. With the process of balance sheet repair having further to run, we expect household consumption growth to remain well below disposable income growth for a number of years yet. Aggregate measures will only get you so far, and there are likely to remain substantial pockets that are struggling to get by.



**The November ANZ job ads will provide guidance over the employment outlook over the next few months. Now we produce the figures so we can't say much.** Suffice to say that the decline over prior months has been sharp. Rugby World Cup dynamics could have been at play and of course November's figures could have had an election uncertainty element too. You can have sympathy for both arguments but jumping on one-offs simply ends up sounding like excuses. Suffice to say that our internal anecdotes suggest firms are largely in a holding pattern on employment decisions, and while skill shortages remain, firms are choosing to survey the outlook before committing to more hiring.

## ECONOMIC OVERVIEW



**We expect another sub-50 reading for manufacturing sentiment.** The October manufacturing PMI plummeted to +46.1 and while the November National Bank Business Outlook showed a recovery in manufacturing sentiment, the global scene remains fickle. Indeed, Q3 manufacturing activity held up quite well, but this was largely due to a run-up of inventories. An inventory build-up looks to have been commonplace across most sectors in Q3, with the fall in finished stocks (to +45) in the October PMI suggesting an unwinding of stocks is now underway, which will weigh on GDP. **High stock levels and an uncertain domestic and global outlook do not make a happy combination.**

### RECENT LOCAL DATA

**GlobalDairyTrade auction.** The average winning price was US \$3,737/tonne, a 2.6 percent increase on the previous event.

**SNZ Wholesale Trade – 2011Q3.** Wholesale sales fell a seasonally adjusted 2.2 percent from June. Total wholesale trade stocks rose 1.2 percent (\$106 million).

**RBNZ Monetary Policy Statement – December**  
The OCR was held at 2.5 percent. "Given the current unusual degree of uncertainty around global conditions and the moderate pace of domestic demand, it remains prudent for now to keep the OCR on hold at 2.5 percent."

**SNZ Economic Survey of Manufacturing - 2011Q3**  
Manufacturing sales values were unchanged versus Q2 (+6.7 percent y/y). Volumes fell 1.4 percent q/q (+2.3 percent y/y).

**SNZ Electronic Card Transactions – November.**  
Retail card transaction values fell a seasonally adjusted 0.5 percent s.a. (5.9 percent y/y). Core ECT spending fell 1.3 percent s.a. (4.3 percent y/y).

**ANZ-Roy Morgan Consumer Confidence – December.** Headline consumer confidence eased 0.6 points to 108.4. Current conditions lifted 1.9 points (to 102.5), with future conditions down 2.4 points to 112.2.

**REINZ Housing Market Data - November.** Sales volumes climbed a seasonally adjusted 6.8 percent (16.9 percent y/y). Prices rose 0.5 percent s.a. (2.6 percent y/y), with the median days to sell easing to 38 days s.a.

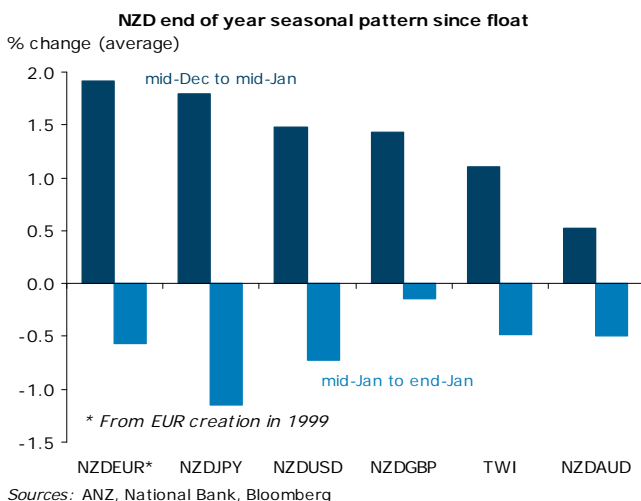
## NZD END OF YEAR EFFECT

### SUMMARY

The NZD tends to exhibit a strong seasonal pattern over the quiet mid-December to mid-January period. Since the float, the NZDUSD has averaged a 1.5 percent increase over that period, with increases recorded in 20 of the past 26 years. The largest percentage gains have been in NZDEUR, followed closely by NZDJPY. From mid-January till the end of that month, the NZD tends to fall as the end of year effect unwinds. While historical performance is no guarantee of future performance, the simple arithmetic average is worthy of note over the liquidity-constrained Christmas period.

### HIGH FLYER DURING HOLIDAY SEASON

There is a strong end of year seasonal effect in the NZD over the December/January period, as the chart below shows. The appendix presents charts and tables of the end of year effect on the NZD crosses.



Four things stand out:

- The NZD tends to appreciate between mid-December to mid-January (loosely, from around 15 December till about 11 January, depending on when the weekends fall). Since the float, NZDUSD has gained in 20 of the past 26 years over this period. The average gain was 1.5 percent with a median gain of 1.3 percent. There is a large range, and on the years that the NZDUSD has risen, the average increase was 2.7 percent. On the years that the NZDUSD fell, the average decline was 2.4 percent.
- From around mid-January till the end of January, the NZD tends to fall as the end of year effect reverses. The average decline since the float was 0.7%. But the frequency of the decline is 50 percent.

- The magnitude of the year-end effect has increased in recent years. In the past 10 years, NZDUSD has risen on 9 occasions for an average gain of 2.3 percent. The magnitude of the reversal over the latter part of January has also increased as a result, though the frequency remains largely unchanged.
- The NZD's end of year effect appears to be fairly broad-based, gaining on average across all the crosses between mid-December to mid-January, then falling between mid to end-January. NZDAUD recorded the smallest gain, possibly because the AUD also exhibits a similar end of year effect. Since the float, the biggest average gains have been in NZDEUR, followed by NZDJPY.

### IMPLICATIONS

Using history as a guide (a somewhat simplistic approach), the odds favour a repeat of the end of year seasonal pattern this summer. Of course as everyone knows, historical performance is no guarantee of future performance and mean reversion can often take hold when people look for historical patterns to keep repeating. Even abstracting from this, a continuation of the recent pattern would require that the European sovereign debt crisis does not escalate over that period, an assumption that is somewhat heroic. It is not that the probability of an escalation in tension is overtly high; rather it is the possible distribution of outcomes across risk assets and hi-beta plays that could follow: if things do go sour, risk plays can move a long way in a short space of time. Of course the flipside to this is that progress by policymakers could add to the seasonal lift in the NZD – particularly given that one of the reasons the NZD has tended to show a positive bias over the Christmas period has been diminished liquidity.

Although NZDEUR and NZDJPY showed the largest average gains since the float, the probability of these two crosses actually repeating the end of year effect is only around seven in ten over the past decade. The cross with the best odds of gaining, and avoiding large losses when it does decline, based on historical performance, is NZDGBP. In the last 10 years, NZDGBP has gained on 9 occasions for an average increase of 2.6 percent, and in the odd year out fell only 0.6 percent. The NZDGBP cross also benefits from not being directly exposed to any volatility in EURUSD or the US dollar generally due to adverse changes in risk sentiment.

# NZD END OF YEAR EFFECT

## APPENDIX

NZDUSD (mid-Dec to mid-Jan)	Average % change	Median % change	% change range	% up move
Since float	1.5	1.3	-5.9 to 6.9	77
Last 15 years	2.5	2.7	-2.9 to 6.9	87
Last 10 years	2.3	2.5	-2.9 to 6.9	90
Last 5 years	3.0	2.7	0.1 to 6.9	100

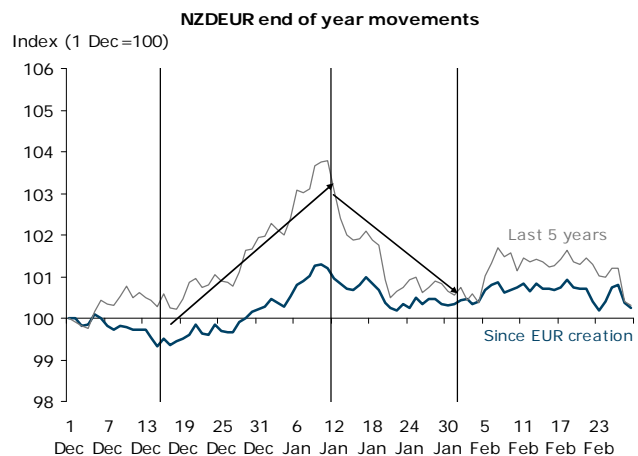
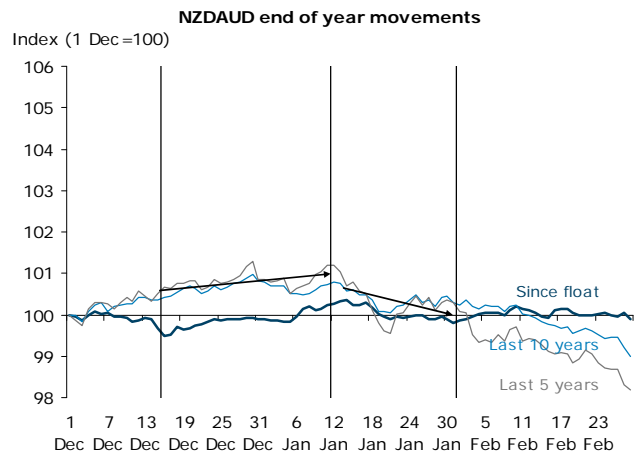
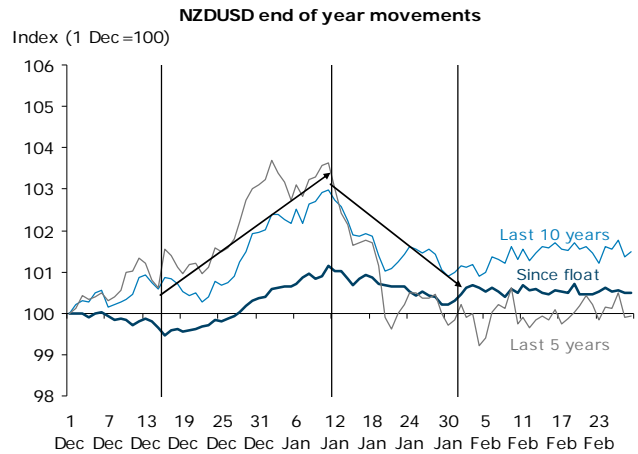
NZDUSD (mid-Jan to end Jan)	Average % change	Median % change	% change range	% down move
Since float	-0.7	-0.1	-14.2 to 6.3	50
Last 15 years	-1.6	-1.3	-14.2 to 2.6	60
Last 10 years	-1.7	-0.5	-14.2 to 2.6	50
Last 5 years	-3.3	0.1	-14.2 to 2.6	40

NZDAUD (mid-Dec to mid-Jan)	Average % change	Median % change	% change range	% up move
Since float	0.5	1.1	-6.9 to 3.6	73
Last 15 years	0.8	1.1	-2.6 to 3.6	73
Last 10 years	0.4	0.4	-2.6 to 2.8	70
Last 5 years	0.7	0.2	-1.2 to 2.8	80

NZDAUD (mid-Jan to end Jan)	Average % change	Median % change	% change range	% down move
Since float	-0.5	0.1	-7.9 to 2.7	46
Last 15 years	-0.7	0.0	-5.3 to 0.7	47
Last 10 years	-0.6	0.1	-5.3 to 0.7	40
Last 5 years	-1.3	-0.5	-5.3 to 0.6	60

NZDEUR (mid-Dec to mid-Jan)	Average % change	Median % change	% change range	% up move
Since EUR	1.9	1.4	-0.8 to 8.7	67
Last 5 years	3.6	2.9	-0.1 to 8.7	80

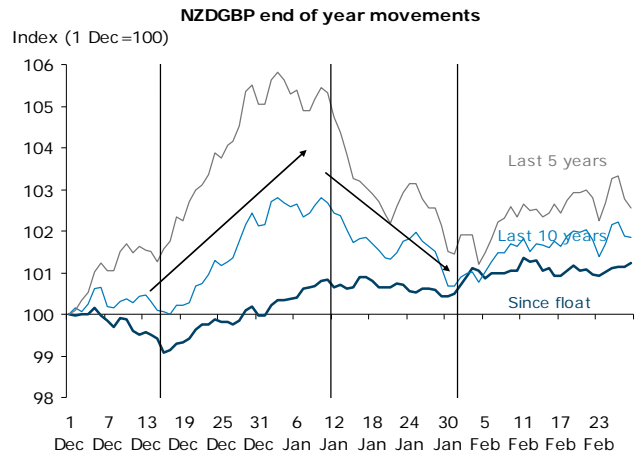
NZDEUR (mid-Jan to end Jan)	Average % change	Median % change	% change range	% down move
Since EUR	-0.6	-0.3	-9.7 to 2.4	50
Last 5 years	-2.5	-1.0	-9.7 to 0.1	80



# NZD END OF YEAR EFFECT

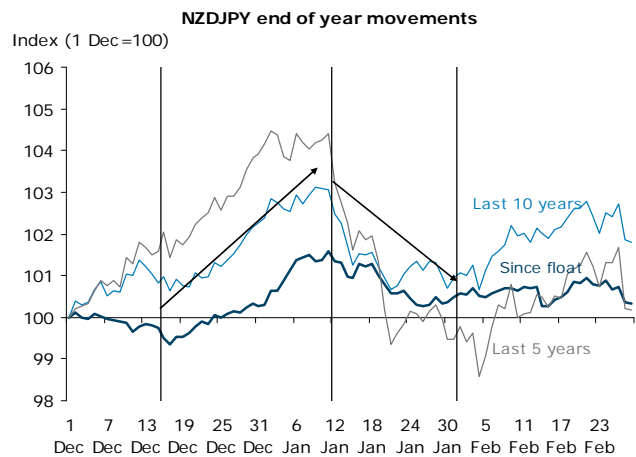
NZDGBP (mid-Dec to mid-Jan)	Average % change	Median % change	% change range	% up move
Since float	1.4	0.7	-7 to 7.9	73
Last 15 years	2.6	2.0	-0.8 to 7.9	80
Last 10 years	2.6	2.1	-0.6 to 7.9	90
Last 5 years	4.0	3.7	0.5 to 7.9	100

NZDGBP (mid-Jan to end Jan)	Average % change	Median % change	% change range	% down move
Since float	-0.1	-0.6	-10.5 to 9.5	54
Last 15 years	-1.0	-0.9	-10.5 to 2.3	53
Last 10 years	-1.5	-0.9	-10.5 to 2.3	60
Last 5 years	-2.9	-0.9	-10.5 to 2.3	80



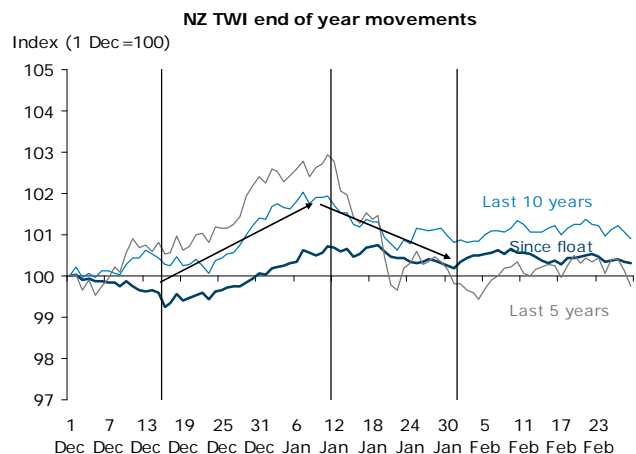
NZDJPY (mid-Dec to mid-Jan)	Average % change	Median % change	% change range	% up move
Since float	1.8	1.8	-6.1 to 11.2	69
Last 15 years	2.7	3.3	-3.7 to 11.2	67
Last 10 years	2.2	2.8	-3.7 to 6.4	70
Last 5 years	2.8	2.1	-1.7 to 6.4	80

NZDJPY (mid-Jan to end Jan)	Average % change	Median % change	% change range	% down move
Since float	-1.1	-1.5	-14.4 to 4.5	58
Last 15 years	-1.6	-1.5	-14.4 to 4.5	53
Last 10 years	-2.4	-0.7	-14.4 to 2.2	50
Last 5 years	-5.4	-4.1	-14.4 to 0.2	80



TWI (mid-Dec to mid-Jan)	Average % change	Median % change	% change range	% up move
Since float	1.1	1.6	-5 to 5.1	73
Last 15 years	1.7	2.2	-2.7 to 5.1	73
Last 10 years	1.5	2.0	-1.9 to 5.1	70
Last 5 years	2.1	2.1	-0.2 to 5.1	80

TWI (mid-Jan to end Jan)	Average % change	Median % change	% change range	% down move
Since float	-0.5	-0.4	-10.6 to 3.9	58
Last 15 years	-0.9	-0.4	-10.6 to 3	60
Last 10 years	-1.0	-0.3	-10.6 to 3	60
Last 5 years	-2.9	-0.7	-10.6 to 0.2	80



# MONTHLY INFLATION GAUGE

## SUMMARY

Our Monthly Inflation Gauge rose 0.3 percent in November, after a 0.1 percent increase in October. Once again, the monthly variability was driven by alcohol prices, with prices in the rest of the gauge unchanged. Our gauge suggests a soft non-tradable Q4 CPI print is in prospect, although the focus will remain on longer-term drivers of inflation.

## BACK ON TRACK

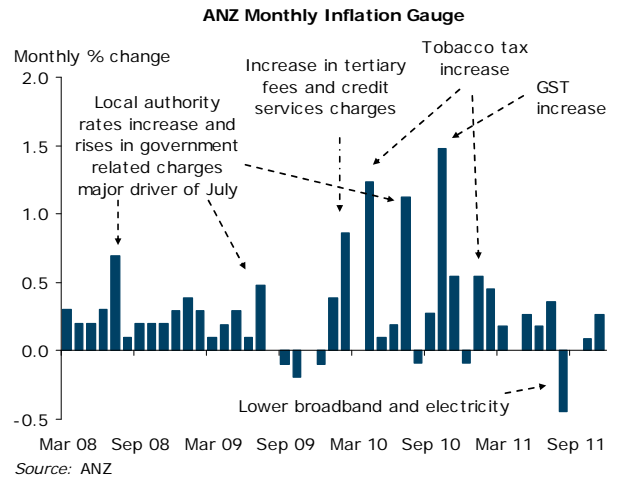
**Our Monthly Inflation Gauge is intended to provide a timely indication of broad trends in CPI non-tradable inflation.** While designed to be as comparable as possible to the official quarterly non-tradable CPI as measured by Statistics NZ, differences in methodology and coverage mean the gauge will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

**The gauge registered a 0.3 percent increase in November.** Tobacco and alcohol prices rose 2.6 percent, with wine prices showing a sizeable lift (following prior month weakness) and beer prices up 2.9 percent. Such movements are indicative of specials and discounting from month to month and introduce some noise into our gauge. Large price rises were also evident for rail and road passenger transport. Smaller price rises were evident for electricity, property maintenance services, paramedic services, and recreation and sporting activities. There were also a number of price declines scattered throughout the gauge, among them a 3.2 percent fall for dental services (reversing an earlier increase), and a fall in accommodation and domestic airfares suggestive of a post Rugby World Cup lull. Of continued encouragement for the RBNZ, our proxy measure for CPI construction costs and rents were both unchanged in November.

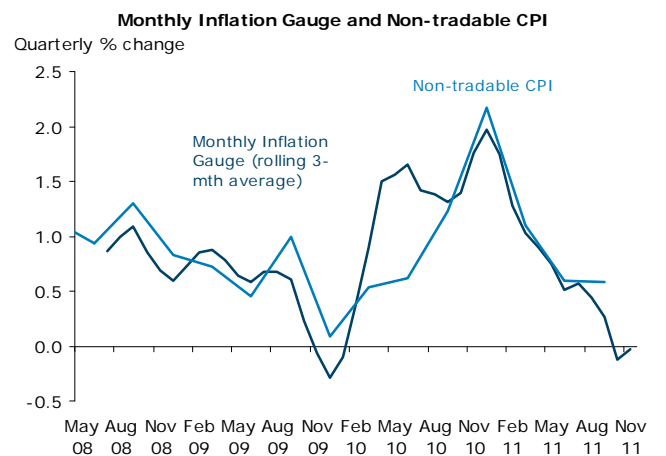
**Our gauge has proved to be an accurate directional indicator for quarterly non-tradable inflation,** with the moderation in domestically generated pricing pressures over the second half of the year being clearly signposted. Taking a rolling average of the last three months shows overall prices were broadly unchanged in November. Excluding the tobacco & alcohol group, prices rose 0.2 percent over this period. The gauge is now pointing to a lower Q4 print for quarterly non-tradable CPI inflation than the 0.6 percent recorded in Q3. With tradable inflation typically at a seasonal low in Q4, the upshot is likely to be a very low quarterly CPI print.

**The benign readings from our gauge give the RBNZ continued flexibility to take a patient approach to the setting of monetary policy.** We

will continue to closely monitor our gauge over the next few months to help assess the degree of underlying pricing pressure within the economy. With the availability of monthly inflationary statistics a key data gap across the economy, we view our gauge (whilst partial in nature), as a timely measure of pending trends in the consumer pricing front.



	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non tradable CPI (q/q%)
Mar-11	1119	0.2	1.0	1.1
Apr-11	1119	0.0		
May-11	1122	0.3		
Jun-11	1124	0.2	0.5	0.6
Jul-11	1128	0.4		
Aug-11	1123	-0.4		
Sep-11	1123	0.0	0.3	0.6
Oct-11	1124	0.1		
Nov-11	1127	0.3		



Sources: ANZ, National Bank, Statistics NZ



# INTEREST RATE STRATEGY

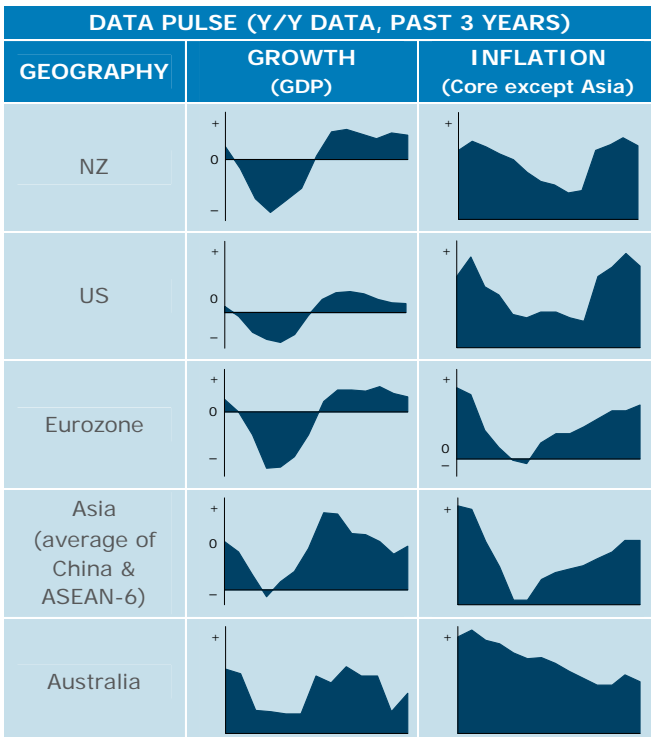
## SUMMARY

Given that the RBNZ published a weak global outlook scenario showing a flat 90-day interest rate track, the theme “lower for longer” seems to be gathering traction and is unlikely to subside into year end. While reaction to the EU summit to date has been positive, it remains to be seen whether any risk recovery can survive right through to year end. Received long positions into year end seem the more attractive trade with positive carry, although with liquidity at rock bottom positions are likely to be held very light.

## THEMES

- **The RBNZ shifted into neutral gear**, and delivered a flat OCR downside scenario on a decent global recession. Implicitly, this means the hurdle to a cut is high.
- **EU summit results, whilst positive, are likely to offer only short-term respite** as we inevitably enter a long slow grind out of trouble for the Eurozone.
- **Domestic data is light this week so more focus will be on the FOMC.** There is also a decent amount of Eurozone debt to be issued.

## DATA PULSE



## PREFERRED STRATEGIES – INVESTORS

Much like last week, the NZ interest rate market continues to move on global events, and with liquidity at rock bottom changes in yield are exacerbated. It feels like the market has taken the EU summit as generally positive so there could be further upside to the latest ‘risk on’ **to average into long positions.**

The European situation will be a long slow grind out of trouble even with the latest aid, and with domestic data still patchy, we still see the potential for future negative shocks as high.

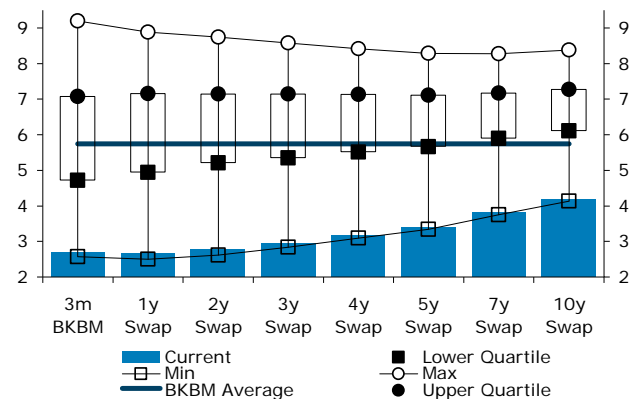
KEY VIEWS – FOR INVESTORS		
GAUGE	DIRECTION	COMMENT
Duration	Neutral/long	Looking to average into long positions on further backup in yields.
Curve	Neutral	Remains directional.
NZ-US 10y spread	Neutral	Bond spreads unchanged in the week, still looking tight.
Swap spreads	Negative	Bonds to continue outperforming swaps.

## PREFERRED STRATEGIES – BORROWERS

**We maintain our preference of keeping the duration of hedges short.** The RBNZ has made it clear that rates are on hold for a while, and the hurdle for cuts is high.

KEY VIEWS – FOR BORROWERS		
GAUGE	DIRECTION	COMMENT
Hedge ratio	Mostly floating	Be careful using swaps with margins at risk of rising
Value	Extreme	Rates at historically low levels.
Uncertainty	Extreme	Still cautious despite better global sentiment.

NZ Swap Rate History (since the OCR introduction)



Sources: ANZ, National Bank, Bloomberg

# INTEREST RATE STRATEGY

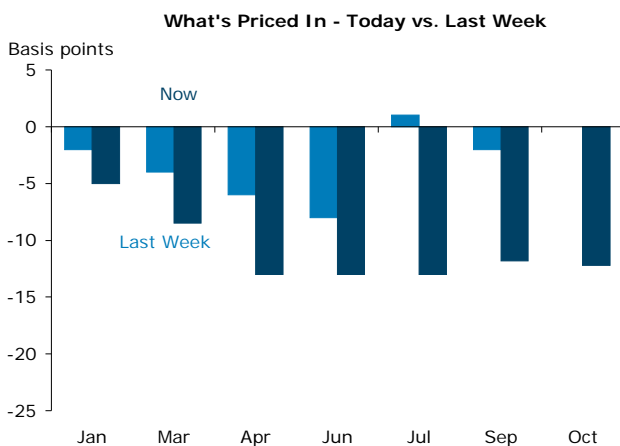
## GLOBAL SCENE

The EU leaders summit on December 9 was the main focus for markets in the weekend. Instead of changes to the EU Treaty, Eurozone members and others will adopt an accord limiting structural budget deficits to 0.5 percent of GDP, with penalties for breaking deficit rules. Theoretical assistance of another €200m from the EU to the IMF to help reforming nations was also announced. Such steps are helpful, but it is not immediately clear how rigorously these new measures will be policed, whether they will be sufficient to even stabilise net debt to GDP (much less reduce it), and how the expansion in the backup fund will be financed. It is fine to talk about debt, but in the absence of confidence and credibility, GDP suffers, making the debt position worse.

## DOMESTIC

This week is very light in terms of the domestic dataflow. With the RBNZ out of the way, the next major data releases are next week's Business Confidence and Q3 GDP. We don't see anything local as market moving. The tenor is okay, but directionless in tone. As such, offshore developments will again be the main focus for the local rates market.

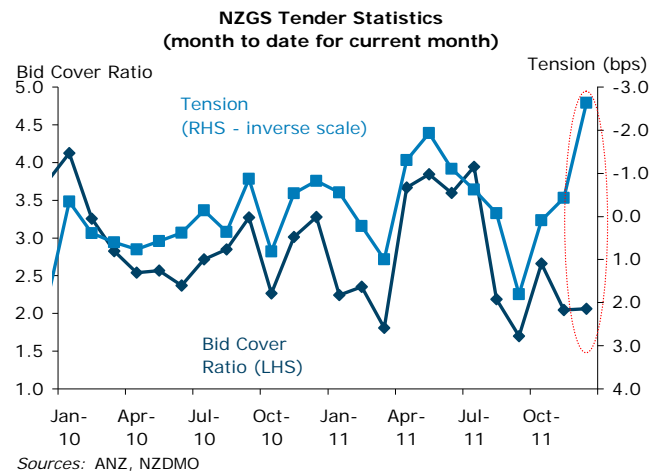
## MONETARY POLICY AND MARKET PRICING



The RBNZ last week delivered a *Statement* that was broadly in line with market expectations. As such, the impact on market pricing immediately following the *Statement* was limited. A flat OCR track is now priced in by markets over the next 12 months, as participants take heed of the RBNZ's view of the OCR being on hold for longer. However, as we noted last week, markets tend to want to price in either hikes or cuts, and they don't tend to price in long

periods of stable interest rates. Hence, with the balance of risks to the global outlook still to the downside, we will eventually see markets retesting the easing theme, though they are unlikely to push it too far.

## BONDS



The bid cover ratio at last week's bond tender was decent at 1.7, and the price tension was very good. In fact, the price tension for the two tenders in December so far is the best since January 2009. This points to good demand for NZGS despite yields down at current levels. With two tenders to go until the end of the year, small tender sizes on offer mean we should continue to see good overall price tension.

## SWAPS AND SWAP SPREADS

We are likely to see continued volatility in swap spreads. We remain of the view that bonds will outperform swaps in the near term, leading to further spread widening. There is more scope for widening in the 5-year tenor, in our view, due to better demand for mid-curve bonds.

## RELATIVE VALUE

NZGS continues to offer good expected returns across the dollar bloc as market participants search for high yield and a solid sovereign rating. NZ offers both of these in a relative sense and we continue to expect further outperformance of the NZGS curve relative to the swaps curve.

# CURRENCY STRATEGY

## SUMMARY

The market has initially taken the EU summit as positive, but question marks are now starting to emerge. There were few new resources, the proposed fiscal treaty faces hurdles, it does not address solvency challenges, and in the meantime the growth portrait across Europe will continue to suffer the longer it takes to strike a bazooka-style deal. Brace for brinkmanship between the politicians and the ECB. Expect a "disappointment" tone across FX trading to dominate the week. Local considerations such as the RBNZ will play second fiddle to this backdrop.

## MARKET THEMES

- European headline watching continues.
- US data improving as China weakens.
- "Triple witching" in derivatives markets this Friday typically marks a massive decrease in financial market volumes as speculators close for the holiday season.

## REVIEW AND OUTLOOK

**The EU Summit has been the central focus. While there have been some apparent agreements by political leaders, the acid test of substance and action remains ahead.** Financial markets continue to latch on to positive announcements but remain prone to being easily disappointed by the slow pace of action. EU breakup has been averted for the time being but the process of "financial repression" required to deliver Europe from its malaise will be painful and drawn out. The effect on the EUR remains uncertain and direction will continue to be headline driven. **We view the package as stopping short of delivering a deal that represents a durable turning point for risk appetites.** In this environment, the NZD will remain hostage.

**RBNZ was no surprise although we can now look forward to the prospect of a 2.50 percent OCR for a long time it seems.** NZ data continues to be a mixed bag and the NZD continues to be driven by offshore factors as the risk-on and risk-off camps continue their tug-of-war. As the FX markets wax and wane, expect the "disappointment theme" to undermine NZD (and other risk currencies) this week.

**The RBA delivered a rate cut of 25bps. The markets were split on this outcome so it was not surprising that AUD finished the week about where it started.** Like the NZD, AUD is being controlled by the offshore situation. Expect AUD to be undermined by the "disappointment theme" like the NZD this week.

**Yet another week of positive US data failed to provide any USD support.** The FX markets remain firmly focused on Europe, with any USD movement an outworking of EUR sentiment. As noted last week, EUR repatriation could be keeping USD weak relative to EUR. Looking into next year the potential for US growth to stall as Europe is mired in a deep recession should not be underestimated. Data runs in strings and **we view the recent run of US strength as coming to an end.** This will eventually turn attention back to the USD.

**More weak Chinese data last week suggests the authorities are likely to step up the monetary easing process.** This will be positive for risk but markets will remain sceptical whether problems can be contained, with evidence of tightened trade finance, a key channel from the GFC to Asia in 2008/09.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Undervalued on a near-term cyclical basis.
Yield	↔	RBA narrows rate differential but still large.
Commodities	↔	Commodities lower.
Partial indicators	↔	Data showing signs of slowing in NZ.
Technicals	↔/↑	Support at 0.7560.
Sentiment	↑	See NZD undervalued vs AUD.
Other	↔	Global sentiment big driver.
<b>On balance</b>	↔/↑	<b>Sentiment sees lazy buyers coming forward.</b>

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above revised structural fair value estimate of 0.70.
Fair value – short-term	↔	Closer to short term FV.
Yield	↑	Official rates to stay low but investable yields support.
Commodities	↔	Softs not bad.
Risk aversion	↔	Positive US data and short covering leads to risk on.
Partial indicators	↔	NZ data now mixed. US data improving.
Technicals	↔/↓	Technical bounce done.
AUD	↔/↓	Bullish correction has run its course?
Sentiment	↔	Nothing special.
Other	↔	Nothing apparent.
<b>On balance</b>	↔	<b>EU headlines will push NZD around.</b>

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
12-Dec	AU	Home Loans MoM - OCT	0.0%	2.2%	13:30
	AU	Investment Lending - OCT	- -	1.9%	13:30
	AU	Owner-Occupied Home Loan Value MoM - OCT	- -	0.7%	13:30
	AU	Trade Balance - OCT	A\$2.00B	A\$2.56B	13:30
	GE	Wholesale price Index (YoY) - NOV	- -	5.0%	20:00
	CH	New Yuan Loans - NOV	550.0B	586.8B	11-15 Dec
	CH	Money Supply - M0 (YoY) - NOV	- -	11.9%	11-15 Dec
	CH	Money Supply - M1 (YoY) - NOV	8.6%	8.4%	11-15 Dec
	CH	Money Supply - M2 (YoY) - NOV	12.8%	12.9%	11-15 Dec
	UK	Nationwide Consumer Confidence - NOV	36	36	12-17 Dec
13-Dec	US	Monthly Budget Statement - NOV	-\$139.0B	-\$150.4B	08:00
	NZ	Food Prices (MoM) - NOV	- -	-1.3%	10:45
	AU	CBAHIA House Affordability - 3Q	- -	56.2	13:00
	UK	RICS House Price Balance - NOV	-25%	-24%	13:01
	AU	Dwelling Starts - 3Q	-1.0%	-4.7%	13:30
	AU	NAB Business Confidence - NOV	- -	2	13:30
	AU	NAB Business Conditions - NOV	- -	-1	13:30
	UK	DCLG UK House Prices (YoY) - OCT	- -	-1.4%	22:30
	UK	CPI (MoM) - NOV	0.2%	0.1%	22:30
	UK	CPI (YoY) - NOV	4.8%	5.0%	22:30
	UK	Core CPI YOY - NOV	3.30%	3.40%	22:30
	UK	Retail Price Index - NOV	238.4	238	22:30
	UK	RPI (MoM) - NOV	0.2%	0.0%	22:30
	UK	RPI (YoY) - NOV	5.1%	5.4%	22:30
	UK	RPI Ex Mort Int.Payments (YoY) - NOV	5.3%	5.6%	22:30
	GE	Zew Survey (Current Situation) - DEC	31.0	34.2	23:00
	EC	ZEW Survey (Econ. Sentiment) - DEC	- -	-59.1	23:00
	GE	ZEW Survey (Econ. Sentiment) - DEC	-55.8	-55.2	23:00
14-Dec	US	NFIB Small Business Optimism - NOV	91.4	90.2	01:30
	US	Advance Retail Sales - NOV	0.6%	0.5%	02:30
	US	Retail Sales Less Autos - NOV	0.4%	0.6%	02:30
	US	Retail Sales Ex Auto & Gas - NOV	0.5%	0.7%	02:30
	US	IBD/TIPP Economic Optimism - DEC	41.8	40.6	04:00
	US	Business Inventories - OCT	0.8%	0.0%	04:00
	US	FOMC Rate Decision - 13-Dec	0.25%	0.25%	08:15
	AU	Westpac Consumer Confidence s.a. (MoM) - DEC	- -	6.3%	12:30
	AU	Westpac Consumer Confidence Index - DEC	- -	103.4	12:30
	AU	DEWR Internet Skilled Vacancies MoM - NOV	- -	-1.9%	13:00
	NZ	Non Resident Bond Holdings - NOV	- -	61.4%	15:00
	UK	Claimant Count Rate - NOV	5.1%	5.0%	22:30
	UK	Jobless Claims Change - NOV	13.7K	5.3K	22:30
	UK	Average Weekly Earnings 3M/YoY - OCT	2.0%	2.3%	22:30
	UK	Weekly Earnings exBonus 3M/YoY - OCT	1.7%	1.7%	22:30
	UK	ILO Unemployment Rate (3mths) - OCT	8.3%	8.3%	22:30
	EC	Eurozone Industrial Prod. wda (YoY) - OCT	2.1%	2.2%	23:00
	EC	Eurozone Industrial Prod. sa (MoM) - OCT	0.0%	-2.0%	23:00
	CH	Actual FDI (YoY) - NOV	- -	8.8%	14-17 Dec
15-Dec	US	Import Price Index (MoM) - NOV	1.0%	-0.6%	02:30

Continued on following page

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
15-Dec	US	Import Price Index (YoY) - NOV	10.1%	11.0%	02:30
	NZ	Business NZ PMI - NOV	- -	46.5	10:30
	AU	Consumer Inflation Expectation - DEC	- -	2.5%	12:30
	JN	Tankan Lge Manufacturers Index - 4Q	-2	2	12:50
	JN	Tankan Non-Manufacturing - 4Q	1	1	12:50
	NZ	ANZ Job Ads - NOV	- -	-2.5%	13:00
	AU	New Motor Vehicle Sales MoM - NOV	- -	1.1%	13:30
	AU	New Motor Vehicle Sales YoY - NOV	- -	4.4%	13:30
	AU	RBA Foreign Exchange Transactn - NOV	- -	A\$401M	13:30
	CH	HSBC Flash Manufacturing PMI - DEC	- -	48	15:30
	GE	PMI Manufacturing - DEC A	47.5	47.9	21:30
	GE	PMI Services - DEC A	50.0	50.3	21:30
	EC	ECB Publishes Monthly Report - DEC	- -	- -	22:00
	EC	PMI Composite - DEC A	46.5	47.0	22:00
	EC	PMI Manufacturing - DEC A	46.0	46.4	22:00
	EC	PMI Services - DEC A	47.0	47.5	22:00
	UK	BoE/GfK Inflation Next 12 Mths - NOV	- -	4.2%	22:30
	UK	Retail Sales Ex Auto Fuel(YoY) - NOV	0.3%	0.9%	22:30
	UK	Retail Sales w/Auto Fuel (YoY) - NOV	0.4%	0.9%	22:30
	EC	Eurozone CPI - Core (YoY) - NOV	1.6%	1.6%	23:00
	EC	Eurozone CPI (MoM) - NOV	0.1%	0.3%	23:00
	EC	Eurozone CPI (YoY) - NOV	3.0%	3.0%	23:00
	EC	Eurozone Employment (QoQ) - 3Q	- -	0.3%	23:00
	EC	Eurozone Employment (YoY) - 3Q	- -	0.4%	23:00
16-Dec	UK	CBI Trends Total Orders - DEC	-20	-19	00:00
	UK	CBI Trends Selling Prices - DEC	-1	2	00:00
	US	Producer Price Index (MoM) - NOV	0.2%	-0.3%	02:30
	US	PPI Ex Food & Energy (MoM) - NOV	0.2%	0.0%	02:30
	US	Producer Price Index (YoY) - NOV	5.9%	5.9%	02:30
	US	PPI Ex Food & Energy (YoY) - NOV	2.8%	2.8%	02:30
	US	Current Account Balance - 3Q	-\$108.7B	-\$118.0B	02:30
	US	Empire Manufacturing - DEC	3.00	0.61	02:30
	US	Initial Jobless Claims - 10-Dec	390K	381K	02:30
	US	Continuing Claims - 3-Dec	3630K	3583K	02:30
	US	Net Long-term TIC Flows - OCT	- -	\$68.6B	03:00
	US	Total Net TIC Flows - OCT	- -	\$57.4B	03:00
	US	Industrial Production - NOV	0.2%	0.7%	03:15
	US	Capacity Utilization - NOV	77.9%	77.8%	03:15
	US	Philadelphia Fed Index - DEC	5.0	3.6	04:00
	EC	Eurozone Labour Costs (YoY) - 3Q	- -	3.6%	23:00
	EC	Eurozone Trade Balance sa - OCT	€0.5B	€2.1B	23:00
	EC	Eurozone Trade Balance - OCT	€1.0B	€2.9B	23:00
17-Dec	US	Consumer Price Index (MoM) - NOV	0.1%	-0.1%	02:30
	US	CPI Ex Food & Energy (MoM) - NOV	0.1%	0.1%	02:30
	US	Consumer Price Index (YoY) - NOV	3.5%	3.5%	02:30
	US	CPI Ex Food & Energy (YoY) - NOV	2.1%	2.1%	02:30

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:** The December MPS confirmed that the global outlook is the predominant concern facing the RBNZ, with future OCR increases kicked into touch. Local data confirmed a post Rugby World Cup hangover for the retail sector, but showed that the housing market is picking up. This week's confidence data will provide a stock-take of the degree of relative resilience, with household sector data expected to show progress is being made on the household saving front. With 2011 drawing to a close the Q3 activity and current data is expected to confirm a RWC boost but highlight our vulnerability from past excesses.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 13 Dec (10:45am)	Food Price Index – Nov	Mild	We expect a 0.2 percent increase, with higher meat prices offsetting further falls for fruit and vegetables.
Thur 15 Dec (10:30am)	BNZ Business NZ Manufacturing PMI	Subdued	Another sub-50 print is in prospect, although we expect a climb from the 46.5 level recorded in October.
Thur 15 Dec (10:45am)	Institutional Accounts	Better	Institutional sector accounts up to 2008/09 will be released, but household data for the 2010/11 year is expected to show positive household saving.
Thu 15 Dec (1:00pm)	ANZ Job Ads - November	- -	- -
Mon 19 Dec (10:00am)	Westpac Consumer Confidence – Q4	Easing	Should follow the ANZ measure, with headline confidence easing to about 109 from 112 in Q3.
Mon 19 Dec (1:00pm)	National Bank Business Outlook	- -	- -
Wed 21 Dec (10:45am)	International Travel and Migration - Nov	Soft	We expect a net PLT outflow of 500 persons. With no Rugby World Cup visitors a 20 percent fall in visitor arrivals is expected.
Wed 21 Dec (10:45am)	Balance of Payments – Q3	Widening	We expect an annual deficit of around \$8.0bn (4.0 percent of GDP), with the investment income deficit widening.
Thur 22 Dec (10:45am)	Gross Domestic Product – Q3	RWC boost	A 0.8 percent increase is expected, with strong retail activity offsetting weakness in construction sector activity.
Fri 30 Dec (3:00pm)	RBNZ Credit Aggregates – Nov	Deleveraging	Annual growth rates of around 1 percent for household and business credit, with agricultural credit down 1 percent.
Wed 4 Jan (early am)	GlobalDairyTrade auction	High	Strong Chinese demand is expected to support prices, with no change in the average price expected.
Mon 9 Jan (10:45)	Overseas Merchandise Trade - Nov	In the red	A monthly deficit of about \$250m is expected, with the annual trade surplus shrinking to about \$550m.
Tue 10 Jan (10:45)	Building Consents - Nov	Climbing	Strengthening house sales suggest a 2 to 3 percent increase in residential issuance. Non-residential consent values are expected to approach \$300m.
Thur 12 Jan (1:00pm)	ANZ Commodity Price Index - Dec	- -	- -
<b>On Balance</b>		<b>Local vs global</b>	<b>Domestic gauges for H2 should remain positive but global concerns suggest caution for early 2012.</b>

## KEY FORECASTS AND RATES

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
GDP (% qoq)	0.9	0.1	<b>0.8</b>	<b>1.1</b>	<b>0.2</b>	<b>0.5</b>	<b>0.7</b>	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>
GDP (% yoy)	1.7	1.5	<b>2.4</b>	<b>2.9</b>	<b>2.2</b>	<b>2.6</b>	<b>2.5</b>	<b>2.4</b>	<b>3.1</b>	<b>3.3</b>
CPI (% qoq)	0.8	1.0	0.4	<b>0.3</b>	<b>0.6</b>	<b>0.7</b>	<b>0.9</b>	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>
CPI (% yoy)	4.5	5.3	4.6	<b>2.5</b>	<b>2.3</b>	<b>2.1</b>	<b>2.5</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>
Employment (% qoq)	1.2	0.0	0.2	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Employment (% yoy)	1.8	2.0	1.1	<b>1.8</b>	<b>0.8</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>	<b>1.3</b>
Unemployment Rate (% sa)	6.5	6.5	6.6	<b>6.4</b>	<b>6.4</b>	<b>6.2</b>	<b>6.1</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
Current Account (% GDP)	-3.6	-3.7	<b>-3.7</b>	<b>-3.5</b>	<b>-3.7</b>	<b>-3.7</b>	<b>-4.0</b>	<b>-4.3</b>	<b>-4.5</b>	<b>-4.6</b>
Terms of Trade (% qoq)	0.8	2.4	<b>-0.6</b>	<b>2.1</b>	<b>-0.8</b>	<b>-0.7</b>	<b>-0.8</b>	<b>-0.9</b>	<b>-0.7</b>	<b>-0.7</b>
Terms of Trade (% yoy)	6.7	7.1	<b>3.4</b>	<b>4.7</b>	<b>3.0</b>	<b>-0.1</b>	<b>-0.3</b>	<b>-3.2</b>	<b>-3.1</b>	<b>-3.1</b>

	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Retail ECT (% mom)	1.5	1.4	-0.7	1.1	0.3	-0.5	0.5	1.6	-0.5	..
Retail ECT (% yoy)	6.6	10.0	6.8	9.0	8.0	8.4	7.5	7.4	6.0	..
Credit Card Billings (% mom)	-1.0	1.9	0.5	0.5	1.1	-1.2	1.3	2.6	..	..
Credit Card Billings (% yoy)	2.1	6.5	5.6	4.6	7.4	4.8	5.3	7.9	..	..
Car registrations (% mom)	-0.2	-5.4	3.4	-2.2	-1.8	8.4	-11.3	0.8	6.6	..
Car registrations (% yoy)	-1.0	-10.5	-3.7	-9.5	-6.0	1.9	-12.2	-8.8	-7.9	..
Building consents (% mom)	2.5	-1.1	3.2	-1.1	13.7	16.8	-17.1	11.2	..	..
Building consents (% yoy)	-26.0	-32.5	-21.8	-25.4	-15.6	18.7	-3.8	11.8	..	..
REINZ House Price Index (% yoy)	-1.8	-0.4	-0.7	0.0	0.5	0.7	2.7	3.4	2.6	..
Household Lending Growth (% mom)	-0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.1	..	..
Household Lending Growth (% yoy)	1.2	1.3	1.2	1.2	1.2	1.1	1.1	1.1	..	..
ANZ Roy Morgan Consumer Confidence	101.4	101.4	103.3	112.5	109.4	113.3	112.6	112.2	109.0	108.4
NBNZ Business Confidence	-8.7	14.2	38.3	46.5	47.6	34.4	30.3	13.2	18.3	..
NBNZ Own Activity Outlook	14.7	29.5	39.7	38.7	43.7	43.3	35.4	26.1	28.8	..
Trade Balance (\$m)	583	1158	550	201	103	-695	-789	-282	..	..
Trade Balance (\$m ann)	741	1238	1019	999	1288	1023	689	627	..	..
ANZ World Commodity Price Index (% mom)	4.7	1.6	0.4	-1.2	-0.2	-1.4	-2.0	-3.5	-1.0	..
ANZ World Commodity Price Index (% yoy)	23.5	19.8	19.6	20.6	22.2	22.0	16.5	9.1	5.8	..
Net migration (sa)	-510	-90	-270	-260	-200	110	-690	-640	..	..
Net migration (annual)	6554	5508	4625	3867	2867	2257	773	-103	..	..

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	Oct-11	Nov-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZD/USD	0.807	0.810	0.775	0.77	0.80	0.83	0.86	0.89	0.90	0.90
NZD/AUD	0.766	0.768	0.759	0.79	0.80	0.79	0.78	0.81	0.82	0.82
NZD/EUR	0.582	0.583	0.579	0.57	0.58	0.59	0.61	0.61	0.62	0.62
NZD/JPY	63.06	62.73	60.18	57.8	60.0	59.8	61.9	64.1	63.0	63.0
NZD/GBP	0.502	0.504	0.495	0.50	0.51	0.52	0.53	0.55	0.55	0.55
NZ\$ TWI	70.4	70.3	68.6	68.4	70.3	71.3	72.8	74.8	75.4	75.4
INTEREST RATES	Oct-11	Nov-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	2.50	2.50	2.75	3.25	3.50
NZ 90 day bill	2.73	2.73	2.71	2.70	2.70	2.80	2.80	3.20	3.70	3.80
NZ 10-yr bond	4.50	4.02	3.91	4.10	4.10	4.10	4.20	4.40	4.40	4.60
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	0.43	0.53	0.54	0.35	0.35	0.35	0.35	0.35	0.35	0.35
AU Cash Rate	4.75	4.50	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00
AU 3-mth	4.71	4.60	4.54	4.50	4.20	4.20	4.20	4.20	4.20	4.20

Forecasts finalised as at 28 November 2011

	9 Nov	5 Dec	6 Dec	7 Dec	8 Dec	9 Dec
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.72	2.70	2.71	2.70	2.69	2.69
NZGB 04/13	2.75	2.53	2.53	2.48	2.45	2.42
NZGB 04/15	3.25	2.89	2.89	2.83	2.81	2.77
NZGB 03/19	4.13	3.79	3.79	3.73	3.71	3.65
NZGB 05/21	4.34	4.06	4.06	4.00	3.97	3.91
2 year swap	3.06	2.87	2.84	2.80	2.77	2.75
5 year swap	3.83	3.57	3.53	3.48	3.43	3.37
RBNZ TWI	69.5	68.9	68.9	69.0	69.0	68.3
NZD/USD	0.7966	0.7785	0.7784	0.7801	0.7806	0.7687
NZD/AUD	0.7685	0.7609	0.7606	0.7607	0.7608	0.7600
NZD/JPY	61.80	60.68	60.56	60.65	60.62	59.73
NZD/GBP	0.4948	0.4987	0.4983	0.4999	0.4970	0.4922
NZD/EUR	0.5757	0.5803	0.5822	0.5814	0.5825	0.5771
AUD/USD	1.0365	1.0231	1.0234	1.0255	1.0260	1.0114
EUR/USD	1.3837	1.3415	1.3371	1.3418	1.3402	1.3321
USD/JPY	77.58	77.95	77.80	77.75	77.66	77.70
GBP/USD	1.6100	1.5611	1.5621	1.5604	1.5707	1.5618
Oil (US\$/bbl)	96.75	100.97	100.94	101.25	100.45	98.35
Gold (US\$/oz)	1791.80	1746.15	1714.60	1729.60	1738.55	1706.60
Electricity (Haywards)	7.22	9.10	6.98	7.13	8.24	9.07
Baltic Dry Freight Index	1802	1856	1848	1849	1882	1922
Milk futures (USD)	141	141	141	141	141	141

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