

# DOUBLE JEOPARDY

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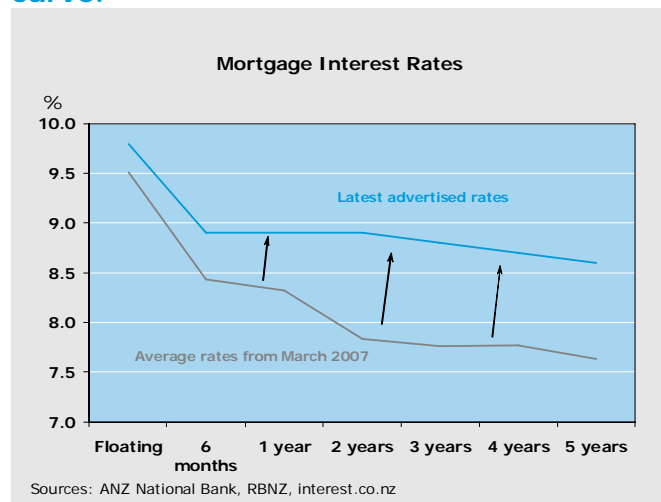
- There was speculation over the weekend that fair value for the NZD/USD remains below 0.60. While such a level can be justified when looking at NZ’s external financial performance and balance sheet, other factors point to fair value being noticeably higher. We remain of the view that exporters should be conservative in setting long-run currency levels and assume a level closer to 0.65 than 0.60.

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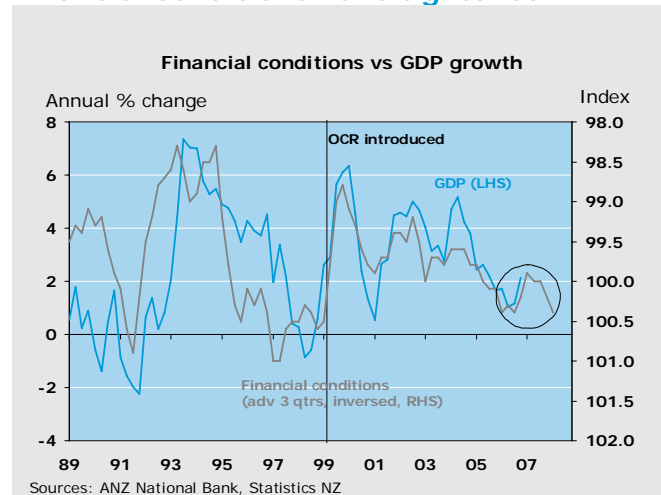
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## Mortgage rates have risen across the curve.



## Financial conditions have tightened.



## ECONOMIC OVERVIEW

**The economy remains robust which points to a higher OCR. However, a further hike would look distinctly like double jeopardy, with the consumer and housing market being convicted twice for the same crime.**

### What's ahead...

- NZ February Retail Sales (Friday 1045 NZST). Spending is expected to show a further modest increase, but limited evidence of acceleration.

### What's the view

The additional policy traction being gained across the curve through higher fixed lending rates remains the dominant theme, and the key reason we expect the Reserve Bank to maintain the status quo for the OCR at the end of the month. Financial conditions have tightened considerably, and are pointing towards 1.5 percent growth (refer page 3).

Given the growth and inflation nuances we are receiving, we would be inclined to pencil in a hike in the cash rate in the absence of the recent increases in retail lending rates or a tightening in overall financial conditions. Strength in commodity prices is insulating a huge pocket of the export sector (refer page 4). The interest rate cycle, which began in early 2004, has been too stop-start in nature, and this has added to unnecessary volatility.

While an increase in the OCR certainly cannot be ruled out, we would struggle to see what strategic objective this would achieve. Sure, it would lock-in the pipeline tightening. But as we noted last week, the New Zealand curve is showing increasing maturity and responding to economic developments. If the data continues to print strong, the market will price in a reasonable chance of a hike in June, particularly if the talk from the Reserve Bank remains tough. The curve will remain supportive of the Reserve Bank's efforts if given the right communication. Markets do after all have strong financial incentives!

Moreover, the explicit inclusion of references to alternative measures to support monetary policy in the March *Statement* was presumably undertaken for strategic reasons. The same goes for the well publicised discussions with financial institutions. It is well known that the credit channel of monetary policy was working against the Reserve Bank over the preceding years. By playing the price card to drive volumes, financial institutions were forcing the Reserve Bank to do more from its end to choke off the volumes. This is now no longer the case given the upward movement in fixed lending rates.

Standing back, the broad picture looks to be one of double jeopardy. The Reserve Bank undoubtedly missed the boat and should have hiked in October

last year. This lost opportunity saw the housing market gain a third wind and growth has been stronger. But as noted last week, one 25 basis point hike in the OCR and a sizeable surge in fixed lending rates have delivered a tightening greater than the Reserve Bank envisaged in their March *Statement* despite growth trends broadly tracking as the bank had forecast. A further hike in the OCR would be akin to convicting the consumer and housing market twice for the same crime.

This does not mean it is game over for the OCR.

- Competitive pressures could quickly reassert. As a broad rule, we suspect the Reserve Bank needs to see the fixed lending curve above 8.5 percent. The buffer is slim.
- The 2007 *Budget* (due May 17) remains a key risk, and notably with the incumbents behind in the polls. If previous experience is followed, the fiscal stance flagged in the *Budget* will be more expansionary than signalled in last year's *December Update*.
- Inflationary nuances remain disconcerting. The cost of postage is to rise from June, and while small (postal services has a 0.16 percent weight in the CPI), the reasoning was clear: higher unit labour costs. Surging commodity prices suggest food staples will rise in price. Freight businesses are the latest toying with price increases, citing higher road-user charges and the Holidays Act. The latter in particular is likely to be an emerging inflationary theme.
- We are strongly biased towards the NZD being the release valve that eventual weakness in the New Zealand economy is expressed through. As we have repeatedly noted, the NZD has the ability to move a long way within a short space of time. Unlike previous cycles, the tradable sector is still running at close to full capacity at the top of the currency cycle. Any currency weakness could well prove to be inflationary.

Our bias remains towards no move, but for the OCR to stay high for a considerable period. Ultimately we suspect the turning point, when it comes, will be aggressive. But at present we are just not seeing anything that would justify taking an aggressive stance or view towards interest rates at present.

### Data last week...

- **NZ ANZ Commodity Price Index (Mar)** rose by 2.0 percent in world terms.
- **RBA and BOE Rate Announcements.** Both left their policy rates unchanged at 6.25 and 5.25 percent respectively.

## UPDATE ON FINANCIAL CONDITIONS

**The rebound in growth is broadly in line with movements in our Financial Conditions Index. While some of that growth momentum looks likely to be carried over into mid year, our financial conditions index suggests the turning point for the cycle is not far away.**

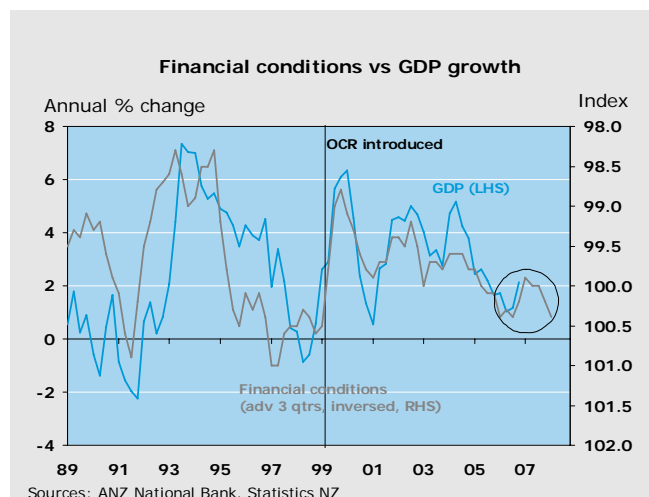
Regular readers of our *Market Focus* will be aware of our *Financial Conditions Index*, which we monitor and provide periodic updates of. Unlike the conventional *Monetary Conditions Index*, our *Financial Conditions Index* includes a wider array of variables to recognise the different channels through which monetary policy influences the economy. This includes:

- The currency, augmented for where commodity prices reside in the cycle and the impact that costs are having on export performance.
- The 90-day bank bill rate, which the Reserve Bank influences through the OCR.
- The 2-year swap rate to recognise that most mortgage lending is undertaken for 1 to 2 years, which gives monetary policy long lags.
- The 10-year bond rate.
- The equity market index as a proxy for corporate wealth and liquidity.
- House prices to proxy household wealth, in recognition that most New Zealand households' wealth is tied up in housing.
- Private sector credit growth as a proxy for the credit channel of monetary policy and to recognise the growing role that financial intermediaries are playing in the monetary transmission process.
- The stock of monetary aggregate relative to the size of the economy to capture the role of liquidity.

Our index is calibrated so that there is a 4:1 ratio between the internal (e.g. interest rates) and external (e.g. currency) variables. The weights on the domestic variables are also heavily skewed towards the 90-day and 2-year swap rates, with smaller roles for the 10-year bond rate, equity market, house prices, credit growth and monetary aggregate ratio.

The index has shown a remarkably strong correlation with GDP growth, notably since the introduction of the OCR in 1999 (correlation coefficient of -0.77 since the June 1999 quarter). The index successfully predicted the slowdown in economic growth since late 2004 and more

importantly, the rebound in growth towards the end of last year.



Early indicators for Q1 so far have been mixed – though consumer spending and housing market activity remain elevated and show no signs of moderating. Headline business and consumer confidence have eased slightly but still point to robust Q1 growth.

Such robustness – broadly around 2½ percent growth – is consistent with our *Financial Conditions Index*. The recent easing in financial conditions, courtesy of the rundown in the currency over the first half of last year, strong commodity prices and lower longer dated interest rates on the back of global yields, will continue to provide support for growth over the first half of this year.

However, a turning point is approaching. Financial conditions have tightened noticeably. This implies the annual pace of GDP growth is set to turn down over the second half of this year as the resurgence in the NZD and higher wholesale interest rates start to bite. The tightening in financial conditions over the past two quarters came about despite a continued rise in commodity and asset prices. Our *Financial Conditions Index* suggests the rebound in activity will ultimately not be sustained beyond mid-2007, with the annual pace of GDP growth to slow towards 1½ to 2 percent by the end of this year.

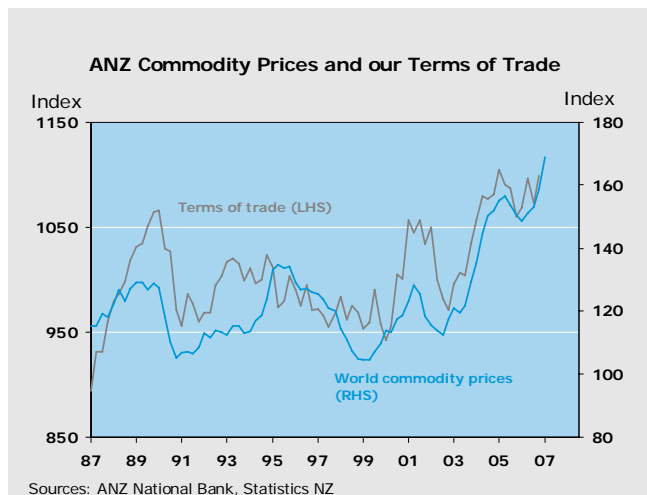
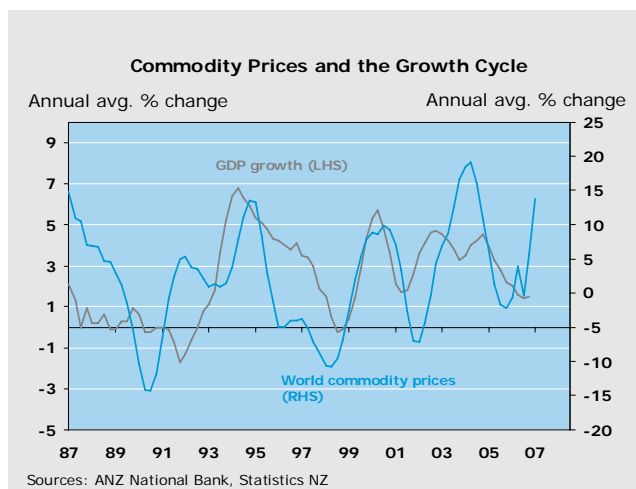
### Financial Market Implications

The rebound in growth late last year is consistent with the loosening in financial conditions seen in early to mid 2006. But financial conditions have tightened considerably subsequently, courtesy of the run-up in the currency and higher interest rates. This implies the current growth impetus will not extend beyond mid-year. We expect growth momentum to wane towards 1½ to 2 percent.

## A GIFT FROM ABROAD

**International “soft” commodity prices have surged of late and structural trends suggest high prices may well be sustained. This in turn will add support to the economy, but also necessitate restrictive monetary policy for a considerable period, and a higher average level for the NZD over the cycle.**

Movements in world commodity prices play a significant role in the returns and performance of the New Zealand export sector – and hence the economy as a whole. Movements in world soft commodity prices (as typified by the ANZ Commodity Price Index) are closely correlated to the business cycle and New Zealand’s terms of trade, with the latter being a key driver of purchasing power and living standards.



The prices received for New Zealand’s key commodity exports have grown phenomenally in the past 12 months. The ANZ World Commodity Price Index is 17 percent above its March 2006 level. Similar surges are apparent across other “soft” commodity gauges including the CRB Food Price Index which is 25 percent higher than the same time last year.

Although the higher NZD has eaten into some of these gains, in NZD terms, prices are still 9 percent above last year’s level. This represents a significant windfall for the economy and has not gone unnoticed by the Reserve Bank, which stated at their March *Monetary Policy Statement* that the recent increases in export prices could be one of the factors contributing to the recent economic momentum.

**Dairy prices account for a huge part of the rise.** World dairy prices have increased by 40 percent in the past 12 months due to the current tight demand-supply situation that exists. However, other sectors are also contributing. In the last year, horticultural prices have increased by 35 percent (with apples recovering from a low base), aluminium prices have followed other base metal prices up and are 14 percent higher, while forestry product prices look to be coming out of the doldrums and are up 7 percent.

**High prices look set to be sustained.** While growth in the world’s largest economy (US) is easing (albeit from a gallop to a canter) we are seeing concerted growth across China, Europe and Japan. Global dairy consumption (2.5-3 percent) is outstripping available supply (1.5-2 percent). The first leg of China’s growth boom was supportive of hard commodities (industrialisation), and the second leg is likely to support the so-called soft commodities, as the model shifts from industrialisation to consumerism. Years of low prices led to under-investment in key areas including forestry and dairy. Sustainability is the latest buzz-word, which presents both a threat (food miles) and opportunity by leveraging off our clean-green image. Society is becoming more health conscious and the baby-boomer generation is set to demand the upper echelon of produce. For a small open primary based economy, these structural trends are much to smile about. As we have noted before, they will manifest in higher prices for our exports (which remain dominated by primary produce) relative to our imports (typically consumption and manufacturing goods). New Zealand’s terms of trade will rise, and as a nation we will be better off.

**High commodity prices will have significant implications for the economy.**

- **They will elongate the business cycle,** necessitating restrictive monetary policy for a considerable period. If commodity prices are set to underpin a sizeable pocket of the export sector (although currency strength will mitigate part of this), there will need to be an even greater growth sacrifice from the domestic economy through sustained high interest rates. Our modelling work shows that a 1 percent change in the terms of trade raises growth by 0.15 percent.
- **High commodity prices will nonetheless provide a floor to growth,** when the slow-

down the Reserve Bank is seeking arrives. We remain biased towards a weaker currency as the release valve for any weakness in the economy that suggests the export sector at some stage may end up double-dipping, and assist in the rebalancing of growth required.

- **We are likely to see massive growth in service.** Selling the service as opposed to the good as New Zealand leverages off its comparative advantage. This resides in the knowledge and expertise as well as the land itself. We are already starting to see leveraging examples through joint ventures in Asia and land investment in South America.
- **It reinforces that fair value for the NZD is higher.** Our average expectation of fair value for the NZD/USD over the currency cycle is 0.62-0.65 (refer page 8).
- **An inflationary under-current?** Hard commodity prices have skyrocketed. Unemployment rates are sitting at record lows across the OECD and unit labour costs are rising. Rises in soft commodity prices portend of price hikes across core staples. Financial markets are discounting the concept. Excess global manufacturing capacity and China remain significant deflationary forces and we concur with these themes. Yet, the amount of pipeline inflation pressure starting to emerge, and negative pressure on business profit margins suggests something has to give. While we struggle to see the inflation genie being let out of the bottle, we suspect there will certainly be a tad more inflation than central banks are comfortable with. Central banks such as the Fed are alluding to the risks. But just as happened to the RBNZ in 2005 and 2006, no-one wants to believe them.

#### **Of course the glass can also be half empty.**

Commodity prices will remain susceptible to changes in the global growth cycle.

Protectionist murmurings are also disconcerting.

But after 5 years of a general upward trend in commodity prices, and signs that this will continue, the medium-term prospects for NZ remain relatively optimistic.

## INTEREST RATE STRATEGY

Data is not expected to present sufficient justification for an April OCR hike. However, expect market pricing to remain close to 40/60 for April heading into next week's important CPI release. Receiving interest to send swap yields lower.

### Market themes...

- Local and offshore receiving interest returned to the market across the curve.
- Higher retail mortgage rates taking some pressure off April hike, adding to receiving interest.
- Global inflation theme continues to bias global yields up.

### Outlook...

A lack of major data last week saw the local interest rate market dominated by flows. Renewed receiving interest from both local and offshore, with only residual mortgage paying left, drove swap yields lower across the curve. The ANZ Commodity Price Index showed another increase in March courtesy of higher dairy prices, which will continue to insulate parts of the primary sector from the high NZD (though manufacturers have no such luxury).

We do not expect data to present a compelling reason for the Reserve Bank to hike the OCR. February retail sales data is historical and prior to the March rate hike. Recent increases in retail fixed mortgage rates are the key and have eased the pressure on the Reserve Bank to hike in April. However, we expect market pricing to remain close to 40/60 for April in the lead-up to next week's CPI print. The market will continue to remain attuned to prospects of a follow-up hike in June or July.

The RBA's failure to hike last week points to a high hurdle before it feels a need to move. While the case for a rate hike is compelling, with the Australian growth story supportive, the RBA obviously feels it has time to wait for more data – in particular the Q1 CPI. But with US jobs data showing solidity, one of the reasons for pausing (US unease) looks to have dissipated. The BoE left its official Bank Rate unchanged at 5.25 percent, but like the RBA, the market is expecting the next move to be up, as early as next month. Although the BoJ and ECB this week are expected to leave their policy rates unchanged, the global tightening cycle is far from over. The markets are looking for interest rate rises from the RBA, BoE and ECB at some stage. Slowing growth, weak productivity but rising inflation pressure in the US, together with a robust labour market, reduces the odds of a Fed easing this year.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔	Higher mortgage rates ease the pressure on April.
NZ data	↔	Data unlikely to present compelling case for a hike.
Fed Funds/front end	↔	Strong US labour market and rising inflation pressure point to Fed on hold but not easing.
RBA	↑	RBA did not deliver but case for a hike still compelling.
US 10 year	↔/↑	Geopolitical tensions ease, inflation concerns to dominate, pushing yields higher.
NZ swap spreads	↔/↓	Correction of EFPs still expected.
Flow	↔	Receivers back into the market to have the upper hand.
Technicals	↔/↓	Offshore developments to dictate.

### Borrowing strategies we recommend at present

With a steepening in the New Zealand yield curve over the past couple of weeks, better levels can be achieved on paying fixed out 4 - 10 years on the yield curve. US yields are also significantly higher adding more pressure to our curve. However, NZ yields are elevated above historical mediums and some optionality may be preferred as opposed to paying fixed outright on new debt.

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

OCR dates	Last week	This week
Thu 26-Apr-07	44	36
Thu 7-Jun-07	64	56
Thu 26-Jul-07	72	68
Thu 13-Sep-	72	68
Thu 25-Oct-07	72	68
Thu 6-Dec-07	68	64
Thu 24-Jan-08	64	60

### Trading themes we favour at present

We favour paying the 1 or 2 year vs receiving the 4 to 5 year.

## CURRENCY STRATEGY

**Still an element of AUD support for the NZD across the G3 at the moment. But strength in USD on the back of strong employment data and growing sentiment the RBNZ is done means NZD looks topy at present.**

### Market themes...

- USD strength means NZD topy at present.
- Geopolitical tensions ease, strong data calms US growth concern, inflation predominant worry.
- G7 big focus but unlikely to have the same kind of effect on FX market as it did earlier this year.
- Risk appetites still strong and carry remain supported.

### Outlook...

With geopolitical tensions now easing with the release of the 15 British personnel by Iran, attention switches back to economic fundamentals in the FX market. Strong employment data out from the US on Friday sent the USD higher as fears over US economic weakness faded, along with prospects of a mid-year rate cut from the Fed.

Although some nervousness will become apparent ahead of this weekend's G7 meeting, the lack of pre-meeting rhetoric regarding yen weakness which dominated the previous meeting earlier this year is a signal that currency markets are not at the top of the agenda this time around. The carry trade liquidation heading into the last G7 meeting is unlikely to repeat this time around.

The NZD has been taking its lead from offshore, particularly from AUD strength and USD weakness in the past week due to a lack of domestic data. The light data calendar for this week will see a continuation of this. This week's QSBO and retail sales data is unlikely to provide a boost to the NZD. Expect the NZ market to continue paring back expectations of an April hike by the RBNZ given higher fixed mortgage lending rates, which remains the key theme. But strong Australian employment data this week could see the NZD ride on the AUD's coat tails. Despite the RBA deciding to keep interest rates unchanged, the AUD price action (which fell but subsequently recovered) suggests that the market continues to look for a hike sooner rather than later. A strong Aussie employment report could well seal the fate of a May hike, irrespective of what the Q1 CPI number prints at. With the RBA still set to go but the RBNZ on hold, the bias for the cross is down.

Technically, the NZD looks like breaking lower through the 0.7186 current 200 hour moving average and test lower levels in the face of USD

strength. Higher US 10 year yields might deliver more momentum for the USD to help this. Any dip would be limited at this stage to the 0.7050-0.7080 area and to achieve this the local dataflow this week would need to be very poor to achieve such a deep test of support.

### NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Above the 0.85-0.88 zone.
Yield	↔/↓	Level outright NZD supportive but story is now RBNZ on hold, RBA set to go.
Commodities	↔	Still supportive of both.
Partial indicators	↔	Aussie employment data key.
Technicals	↔/↓	Failed to break higher after RBA on hold suggests topside limited.
Sentiment	↔	Positioning still long on AUD.
Other	↓	Protectionist overtones more negative for NZD.
<b>On balance</b>	↔/↓	<b>Broad consolidation but bias down.</b>

### NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↓	Fair value moving higher (0.62-0.65) given a structural shift in commodity prices.
Fair value – short-term	↔	NZD more fairly valued on commodity models.
Yield	↑	NZ yield still attractive.
Commodities	↔/↑	Higher commodity prices continue to lend support.
Risk aversion	↓	Higher global inflation, protectionist overtones, G7 may see increased risk aversion.
Partial indicators	↓	US NFP data strong, Fed cuts some way off.
Technicals	↓	Topy, set to test support levels.
AUD	↔/↑	AUD strength dragging NZD higher. RBA to watch.
Sentiment	↑	Positive.
Other	↔	Range defined.
<b>On balance</b>	↔	<b>Carry solid, but headwinds emerging.</b>

## SUB-60?

**There was speculation over the weekend that fair value for the NZD/USD remains below 0.60. While such a level can be justified when looking at NZ's external financial performance and balance sheet, other factors point to fair value being noticeably higher. We remain of the view that exporters should be conservative in setting long-run currency levels and assume a level closer to 0.65 than 0.60.**

We noted with interest the speculation over the weekend that fair value for the NZD/USD remained below 0.60. Exporters should be salivating at the thought. High commodity prices and a low currency! Economic nirvana is around the corner!

The justification for fair value remaining below 0.60 is built around New Zealand's unsustainable current account deficit. A lower currency is required to restore external balance or, more broadly, return us to the level of the current account which stabilises the ratio of net foreign liabilities to GDP.

With net foreign liabilities around 90 percent of GDP, a back of the envelope calculation shows that if our potential growth rate is 3 percent of GDP and our real cost of overseas capital is 5 percent then we need to maintain a trade surplus of around 2 percent of GDP to stay solvent. But with the trade position now in deficit, New Zealand is running an "excess" trade deficit in the order of 4 percent of GDP. Curbing this excess requires a lower currency, and based on export performance in the past, the NZD/USD needs to be sub 0.60.

Research undertaken by the Reserve Bank using such an approach puts fair value within a range of 52 and 59 on a trade-weighted basis.<sup>1</sup>

The recent upturn in commodity prices and New Zealand's terms of trade – the most commonly quoted justification for higher fair value – is seen as cyclical by those pointing to fair value being lower. While not noted in media commentary, higher average inflation in New Zealand over the past few years relative to our trading partners, and lower productivity growth of late also point to a lower level for fair value.

Lower levels of fair value also broadly tie in with the level (0.58) since the NZD was floated in 1984. Of course if we exclude the post float lows, the exceptional period of USD strength in 2000 and the period the NZD was sub 0.50, the average level has been just above 0.60.

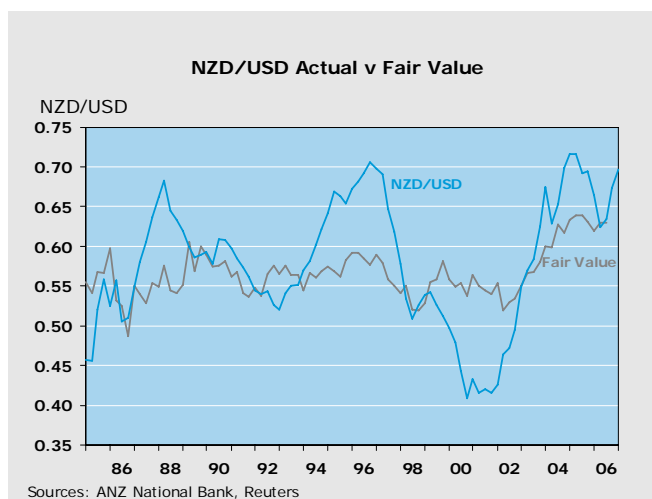
<sup>1</sup> "A macroeconomic balance measure of New Zealand's equilibrium exchange rate", RBNZ Discussion Paper DP2000/09, Anne-Marie Brook and David Hargreaves.

Our own view remains that fair value is noticeably higher than historical benchmarks and external balance measures suggest.

- **The terms of trade story looks structural.** Sure, part of the recent surge in commodity prices will contain a cyclical element, and higher prices will instigate a supply response. But standing back and looking at the big picture we note that demand for most primary commodities is oustripping supply, while there is a swathe of excess capacity in the manufacturing and consumption goods arenas. China's ratio of investment to GDP stands at a whopping 50 percent. While infrastructure etc is a key component, that is still a lot of factories! In such an environment, we retain our "buy soft commodities-sell DVD's and manufacturing goods" view.
- **Currencies are two-sided coins.** We find it a little perplexing that New Zealand's 2 percent current account trade deficit (the currency sensitive element) requires a weaker currency, while the US equivalent trade deficit of 6 percent of GDP does not!
- **Lower economic volatility justifies a higher P/E for NZ Inc.** The standard deviation of annual GDP has been 1.6 percent since the OCR was introduced, compared with 2.6 percent over the preceding 20 years. Just as less earnings volatility justifies a higher P/E for a company, the same applies for an economy and currency.
- **New Zealand's massive imbalance is not merely a trade story.** The last time New Zealand's current account trade position was in balance and the overall deficit below the 5 percent level was 2003. The deterioration since then has broadly been 2 percent of GDP for invisibles, 1 percent for services and just over 1 percent for trade. A higher invisibles deficit has been a function of debt servicing, but also strong domestic profits, and the lower returns that New Zealanders receive relative to foreign investors in New Zealand. Neither require a currency response. Rather a smarter investing response.
- **New Zealand's external financial imbalance is largely a domestic issue,** with the deterioration in New Zealand's external position being dominated by rampant import growth. A domestic issue should be matched by a domestic solution as opposed to a currency response.
- **There are broader forces at work.** Just as New Zealanders are poor savers, Asia has a savings excess. High rates of national savings do not generate economic nirvana as the Asian crisis of the late 1990's testifies. New Zealand's poor savings record is a reflection of

weak savings incentives, and housing's relative tax advantage as an investment vehicle.

- **Services are overlooked.** Tourism is New Zealand's largest industry and the fastest growing sector over the past decade. We note that the services balance currently remains in surplus despite a massive tail-off in education exports (fewer Chinese students) and the high currency. In fact tourism numbers are up 6 percent on a year ago. Services are the most responsive export industry to changes in the currency. Watch for the tourism sector and services balance to fire when the currency does give ground.
- **Our own exchange rate modelling points to fair value being higher.** We use an average of four alternate specifications to determine fair value for the NZD/USD. Inputs include combinations of relative inflation, unit labour costs, terms of trade, short and long-term interest rates, GDP growth relative to trend, and current account balances. An average across these specifications points to fair value being around 0.62-0.65.



## The upshot

External financial balance measures of fair value are long-term in nature. As noted by Keynes, in the long run we are all dead.

Speculation of fair value for the NZD/USD residing below 0.60 – while backed by sound rationale – looks a little low to us when looking at other factors.

We remain of the view that exporters should be conservative in setting long-run currency levels and assumed a level closer to 0.65 than 0.60.

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
10 Apr	NZ	<b>NZIER Quarterly Survey of Business Opinion (1Q)</b>	-	<b>3</b>	<b>10:00</b>
	AU	AiG Performance of Construction Index (Mar)	-	51.7	11:30
		ANZ Job Advertisements (Mar) – mom	-	3.4%	13:30
		NAB Business Confidence (Feb)	-	7	13:30
		NAB Business Conditions (Feb)	-	17	13:30
		Foreign Reserves (Mar)		\$68.2B	18:30
	JN	Bank of Japan Interest Rate Announcement	0.5%	0.5%	-
		BoJ to Release Monthly Economic Survey	-	-	18:00
		BoJ Governor Fukui to Hold Regular Press Conference	-	-	18:30
	GE	Trade Balance (Feb)	15.0B	16.2B	18:00
		Current Account (Feb)	10.6B	11.0B	18:00
		Imports (Feb) – mom s.a.	1.0%	-1.5%	18:00
		Exports (Feb) – mom s.a.	1.1%	0.1%	18:00
11 Apr	US	Fed's Mishkin Speaks at Bridgewater College in Virginia	-	-	01:30
		IBD/TIPP Economic Optimism (Apr)	50.0	50.8	02:00
		Fed's Plosser Speaks on Federal Reserve in Delaware	-	-	11:30
	JN	Machine Tool Orders (Feb) – mom	-0.3%	3.9%	11:50
		Machine Tool Orders (Feb) – yoy	0.9%	2.6%	11:50
		Money Supply M2+CD (Mar) – yoy	1.2%	1.1%	11:50
		Broad Liquidity (Mar) – yoy	2.8%	2.7%	11:50
		Bank Lending (Mar) – yoy	-	1.3%	11:50
		Current Account Total (Feb)	¥2,303.5B	¥1,194.4B	11:50
		Adjusted Current Account Total (Feb)	¥1,686.8B	¥1,848.5B	11:50
		Trade Balance – BOP Basis (Feb)	¥1,,140.5B	¥114.0B	11:50
		Bankruptcies (Mar) – yoy	-	5.5%	16:30
	AU	Home Loans (Feb)	0.3%	0.3%	13:30
		Investment Lending (Feb)	-	4.6%	13:30
12 Apr	UK	Leading Indicator Index (Feb) – mom	-	0.3%	02:30
		Coincident Indicator Index (Feb) – mom	-	0.0%	02:30
		RICS House Price Balance	21%	24%	11:01
		Visible Trade Balance (Feb)	-£6,400m	-£6,226m	20:30
		Trade Balance non-EU (Feb)	-£3,900m	-£3,678m	20:30
		Total Trade Balance (Feb)	-£4,000m	-£3,783m	20:30
	US	Fed's Lacker Speaks to Economists in North Carolina	-	-	04:00
		Minutes of March 21 FOMC Meeting Released	-	-	06:00
		Monthly Budget Statement (Mar)	-\$89.5B	-\$120.0B	06:00
		Fed's Moskow Speaks on Economic Outlook in Illinois	-	-	12:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
12 Apr cont.	JN	Domestic CGPI (Mar) – mom	0.1%	0.0%	11:50
		Domestic CGPI (Mar) – yoy	-	1.8%	11:50
	AU	Employment Change (Mar)	15.0k	22.0k	13:30
		Unemployment Rate (Mar)	4.6%	4.6%	13:30
		Participation Rate (Mar)	64.9%	64.9%	13:30
	EU	Euro-Zone GDP (4Q F) – qoq	0.9%	0.9%	21:00
		Euro-Zone GDP (4Q F) – yoy	3.3%	3.3%	21:00
		ECB Interest Rate Announcement	3.75%	3.75%	23:45
13 Apr	EU	ECB's Trichet Speaks at Monthly News Conference	-	-	00:30
		Euro-Zone Industrial Production (Feb) – mom	0.4%	-0.2%	21:00
		Euro-Zone Industrial Production (Feb) – yoy	4.1%	3.7%	21:00
		US	Import Price Index (Mar) – mom	0.8%	0.2%
Import Price Index (Mar) – yoy	0.8%		1.3%	00:30	
ICSC Chain Store Sales (Mar) – yoy	-		2.5%	05:30	
	NZ	<b>Retail Sales (Feb) – mom</b>	-	<b>0.5%</b>	<b>10:45</b>
		<b>Retail Sales Ex-Auto (Feb) – mom</b>	-	<b>1.0%</b>	<b>10:45</b>
14 Apr	US	Trade Balance (Feb)	-\$60.0B	-\$59.1B	00:30
		Producer Price Index (Mar) – mom	0.7%	1.3%	00:30
		Producer Price Index (Mar) – yoy	3.0%	2.5%	00:30
		PPI Ex Food & Energy (Mar) – mom	0.2%	0.4%	00:30
		PPI Ex Food & Energy (Mar) – yoy	1.8%	1.8%	00:30
		University of Michigan Confidence (Apr P)	87.5	88.4	02:00

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

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

## NEW ZEALAND DATA WATCH

**Key focus over next four weeks:** Higher fixed mortgage rates across the board have effectively taken some pressure off the Reserve Bank to hike in April. However, the Bank will still want to see evidence of moderation in economic activity to be confident that medium-term inflation pressures will ease.

Date	Data/Event	Economic Signal	Comment
Fri 13 Apr (10.45)	Retail Trade Survey (Feb)	Stabilisation	Consumer spending is expected to show further modest increases, although trend measures will continue to stabilise and show limited evidence of acceleration.
Circa 15 Apr	REINZ Housing Report (Mar)	Resilient	Judging by our own book, March credit growth is looking strong and suggests the REINZ March report will also print strongly. Expect house sales to remain elevated and the median number of days to sell a house to stay at historically low levels.
Wed 18 Apr (10.45)	Consumer Price Index (Mar qtr)	Easing	The headline CPI is expected to increase by 0.4 percent, taking the annual inflation rate to 2.4 percent. Non-tradables inflation will remain elevated, increasing by 0.9 percent (annual 3.8 percent), while tradables inflation is expected to fall by 0.2 percent in the quarter.
Fri 20 Apr (10.45)	External Migration	Steady	After an easing in recent migration gains, we expect annual migration to stabilise at around 13,000 per annum.
Tue 24 Apr (15.00)	Credit Card Billings (Mar)	Steady	A small technical pull-back is expected given the strong increase in February.
Thu 26 Apr (09.00)	Reserve Bank OCR Review	On hold but tightening bias to remain	Although the Reserve Bank left the door open to further hikes, we believe the threshold is high. However, rates are likely to remain at current levels for a considerable period of time
Thu 26 Apr (10.45)	Merchandise Trade (Mar)	Small surplus	We expect the monthly trade balance to record a small surplus with high export commodity prices being offset by an increase in oil import prices.
Thu 26 Apr (15.00)	National Bank <i>Business Outlook</i> (Mar)	-	-
Fri 27 Apr (15.00)	Credit Growth (Mar)	Strong	Credit growth continues to show limited evidence of slowing. We expect another 1.0 percent month.
Mon 30 Apr (10.45)	Building Consents (Mar)	Easing	The trend decline in consent issuance is expected to continue, although the speed of this decline is expected to have eased.
Fri 4 May (15.00)	ANZ Commodity Price Index (Apr)	-	-
<b>On Balance</b>		<b>A firm base</b>	<b>Strong momentum end of last year. Partially relating to Q1 show a firm base has been found.</b>

### NZ Economics

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## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Feb 07	Mar 07	10 Apr 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
NZD/USD	0.694	0.699	0.720	0.710	0.660	0.630	0.620	0.600	0.580	0.560
NZD/AUD	0.887	0.882	0.881	0.877	0.846	0.829	0.827	0.822	0.806	0.812
NZD/EUR	0.530	0.528	0.539	0.530	0.500	0.485	0.484	0.472	0.464	0.455
NZD/JPY	83.7	82.0	85.8	83.1	75.9	70.6	68.2	64.8	62.6	61.6
NZD/GBP	0.354	0.359	0.367	0.360	0.340	0.330	0.328	0.323	0.315	0.308
NZ\$ TWI	68.9	68.7	70.3	69.2	64.9	62.3	61.5	59.8	58.3	57.2
NZ interest rates	Feb 07	Mar 07	10 Apr 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
OCR	7.25	7.44	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.25
90 day bill	7.74	7.88	7.90	7.70	7.60	7.60	7.60	7.60	7.60	7.20
10 year bond	5.96	5.89	5.94	6.10	6.20	6.20	6.10	6.00	5.90	5.80
International	Feb 07	Mar 07	10 Apr 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
US Fed funds	5.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75	5.00	5.25
US 3-mth	5.35	5.35	5.35	5.40	5.00	4.60	4.75	4.90	5.25	5.40
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	6.35	6.52	6.46	6.80	6.80	7.00	7.00	7.00	7.00	7.10

## KEY RATES

	6 Mar	2 Apr	3 Apr	4 Apr	5 Apr	6 Apr
Official Cash Rate	7.25	7.50	7.50	7.50	7.50	n/a
30 day bank bill	7.71	7.82	7.81	7.81	7.81	n/a
90 day bank bill	7.82	7.93	7.92	7.92	7.90	n/a
NZGB 07/09	6.66	6.93	6.93	6.91	6.90	n/a
NZGB 11/11	6.41	6.61	6.61	6.57	6.56	n/a
NZGB 04/13	6.15	6.30	6.30	6.28	6.27	n/a
NZGB 12/17	5.81	5.93	5.93	5.91	5.90	n/a
1 year swap	7.93	8.05	8.04	8.03	8.01	n/a
2 year swap	7.76	7.94	7.93	7.89	7.87	n/a
5 year swap	7.38	7.64	7.63	7.59	7.58	n/a
RBNZ TWI	67.2	69.9	70.3	70.3	70.2	n/a
NZD/USD	0.6793	0.7158	0.7212	0.7184	0.7200	n/a
NZD/AUD	0.8776	0.8809	0.8840	0.8848	0.8806	n/a
NZD/JPY	79.10	84.31	84.95	85.40	85.44	n/a
NZD/GBP	0.3525	0.3638	0.3646	0.3640	0.3645	n/a
NZD/EUR	0.5183	0.5361	0.5396	0.5387	0.5386	n/a
AUD/USD	0.7740	0.8126	0.8158	0.8119	0.8176	n/a
EUR/USD	1.3107	1.3353	1.3366	1.3337	1.3367	n/a
USD/JPY	116.45	117.78	117.79	118.87	118.66	n/a
GBP/USD	1.9271	1.9678	1.9781	1.9738	1.9754	n/a
Oil	60.05	65.94	66.03	64.59	61.51	n/a
Gold	643.00	664.00	664.70	665.20	670.75	n/a
Electricity Price Index	6.65	6.16	6.01	5.86	5.71	5.53

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