

Market Focus

New Zealand

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BLUNT MESSAGES

NZ Economics Team:

Cameron Bagrie

Chief Economist

Telephone: +64 4 802 2212

E-mail: bagriec@anz.com

Khoon Goh

Senior Markets Economist

Telephone: +64 4 802 2357

E-mail: gohk@anz.com

Philip Borkin

Economist

Telephone: +64 4 802 2199

E-mail: borkinp@anz.com

Steve Edwards

Economist

Telephone: +64 4 802 2217

E-mail: edwards1@anz.com

Kevin Wilson

Rural Economist

Telephone: +64 4 802 2361

E-mail: wilsonk1@anz.com

Page 2: Economic overview

- > A host of reviews are due for release this week and will highlight that change is needed, whether that be to close the income gap with Australia or to address models that simply no longer work. The fall-back option of doing nothing is unsustainable, although the endgame is somewhat uncertain. Irrespective, we see the process of change as broadly consistent with the RBNZ's cautious stance.

Page 4: Economic comment – financial conditions update

- > Our NZ Financial Conditions Index is pointing to a modest recovery over the year ahead. The recent pullback in the NZD and rising house prices has led to a loosening in conditions, offset by higher longer term mortgage rates. Our Australian Financial Conditions Index is pointing to above-trend growth next year.

Page 5: Economic comment – NBNZ Business Outlook update

- > Economic momentum has continued to gather pace as we approach the end of the year, based on the latest National Bank Business Outlook survey. This momentum is spread across all the sectors within our survey, although it is the construction sector leading the charge. The manufacturing and agricultural sectors have been slower to turn, but also look set to experience improved performance over the coming months.

Page 7: Interest rate strategy

- > The RBNZ decision is looming but global events are taking centre stage, and will continue to dominate the NZ rates market in the near term. We see potential for profit taking early this week to send yields higher, but any moves will likely be limited as the Dubai World fallout continues. We are likely to see some marginal carry through from the RBA decision.

Page 8: Currency strategy

- > Dubai was the major driver of NZD fortunes last week. The world is certainly an inter-dependent place, and those countries with current account deficits remain the most vulnerable to seemingly non-related shocks. The RBA announcement and Fonterra auction will be the key focus this week. We are biased to moves higher for the NZD.

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ECONOMIC OVERVIEW

A host of reviews are due for release this week and will highlight that change is needed, whether that be to close the income gap with Australia or to address models that simply no longer work. The fall-back option of doing nothing is unsustainable, although the endgame is somewhat uncertain.

Irrespective, we see the process of change as broadly consistent with the RBNZ's cautious stance.

What's ahead?

- > **Fonterra Online DairyTrade auction results** (Wednesday morning NZDT). The auction results and USDA dairy prices have tracked fairly closely over time. The latter has risen slightly over the past few weeks and we expect the Fonterra auction results to reflect that.
- > **November ANZ Commodity Price Index** (Thursday 1500 NZDT).
- > **Financial Statements of Government for the four months to October** (Friday 1000 NZDT). The Minister of Finance made it clear last week when he said the recession will have a lasting impact on the Government's accounts. We expect further downward pressure on the tax take and a large core operating deficit.

What's the view?

There are likely to be some firm messages on two levels this week as a host of working groups report back to the Government (and the public). First, if we are to close the gap with Australia some hard decisions are required. Tinkering will not suffice – especially across the tax system and in regards to fiscal policy. Second, some core aspects of our economic system are no longer sustainable. Last week the Minister of Finance explained that between 2005 and 2009, baseline government spending rose 45 percent – three times faster than nominal GDP. A continuation of these trends is the *coup-de-grace* on at least one credit rating downgrade and saddling the next generation with excessive debt. It is all part of prepping for a tight *Budget* in 2010 and in subsequent years.

Specifically, there are three groups to watch this week.

- > Taskforce 2025 – responsible for suggesting how NZ can close the income gap with Australia by 2025 and chaired by former RBNZ Governor Don Brash – is due to report back to Cabinet today with its recommendations.
- > The Tax Working Group is holding a public conference on Tuesday. Their previous briefings have looked at various property taxes

(capital gains, land tax or a risk-free rate of return tax) as well as potentially lifting GST and lowering personal income and corporate taxes amongst other things.

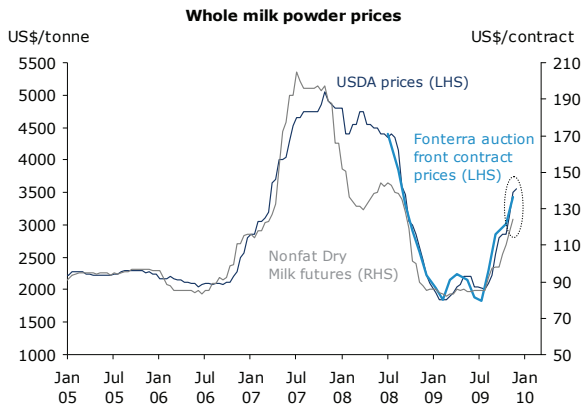
- > ACC is due to report on required changes to make their "model" work.

At this juncture, we'll reserve judgement until we see the outcomes. Instead, we will limit ourselves to five simple observations:

- > **The fall-back option of doing nothing is unsustainable.** The tax system is too narrow. A widening income gap with Australia will continue to plunder our workforce, which will exacerbate the problems of a narrow tax base. A failure to address fiscal issues today will simply saddle the next generation with debt.
- > **All of the groups are likely to offer hard choices, some of which will no doubt be politically unpalatable.** In fact, we have already seen certain options, such as a capital gains tax on housing, effectively ruled out.
- > **This means the second best-option will come to the fore** as the jockeying between economics and politics intensifies.
- > **The challenge in implementing second-best policy options is to make sure they do not create more perverse incentives.** In contrast to common perception, housing receives no specific tax advantages. Its advantage resides in the ability to extract leverage (and also probably the lax application of existing rules and structures). But it seems inevitable that some changes are going to occur to housing (as we have noted in the last few weeks) and the challenge will be to ensure new distortions do not simply replace old ones.
- > **Looking at the big picture, we are in no doubt that the pending changes will add weight to monetary policy remaining supportive for longer.** The only real uncertainty is to what degree. But with tax cuts being put back on the table (and expenditure restraint at the fore), you'd have to think that this will be "financed" in some way or form from housing. Such changes will no doubt have a sizeable impact, particularly considering that housing is the "hot" area many are using as a major reason in calling for an interest rate hike in early 2010.

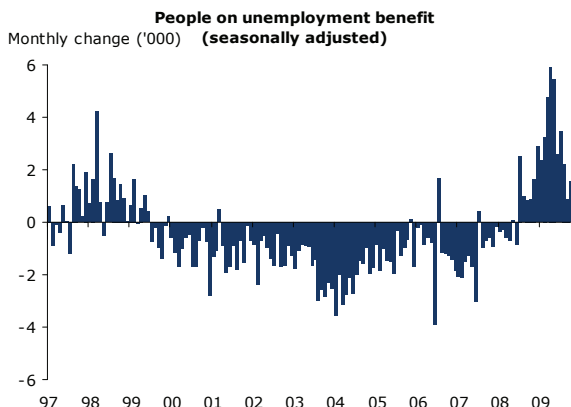
The data this week centres on the prices received for NZ's exported products. Of most interest will be the results for Fonterra's online DairyTrade milk-powder auction. The increases over the past few months have been nothing short of phenomenal, rising 88 percent since July. This has resulted in Fonterra pushing through a significant increase to their 2009/10 payout

forecast. Based on the recent USDA dairy prices, we suspect the auction results could record a further small increase. The other release is the ANZ Commodity Price Index for November.



The Minister of Finance made it clear last week that the Government's accounts continue to deteriorate and we expect this to be emphasised by the Financial Statements of Government to the four months to October released this week. While the headline operating balance might be boosted by a better investment performance from the NZS Fund and ACC, the underlying balance will undoubtedly be further impacted by rising expenditure and a tax take under pressure.

We'll also be watching for the latest monthly unemployment benefit numbers. These have tended to be released at the start of the following month. Last month the number of registered unemployed actually fell. But once adjusted for seasonal patterns, they still increased. However, what is clear is that the rate of increase has slowed. We view stabilisation in the unemployment rate as a pre-condition to a change in tone in monetary policy, and registered unemployed figures will provide a partial guide on this. Suffice to say that with anecdotes like huge numbers of students registering for Student Job Search we don't seem to be at that point yet. We expect the numbers on the unemployment benefit to keep rising.



Internationally, it is a busy week. Topping the list of events is the RBA's interest rate decision on Tuesday. While the market isn't fully sold on the idea of the RBA increasing rates by 25bps, economists (including our Australian colleagues) are almost unanimous. It is possible that this latest bout of risk aversion will cause a few concerns in policy circles, although we doubt it is enough of a widespread issue to warrant any change of thinking on the outlook. In the US, the key releases are the ISM and non-farm payroll numbers. These will be used to help gauge whether the US economy is maintaining the momentum it is (slowly) rebuilding. In Europe, the ECB are also making an interest rate announcement, although we suspect the message delivered will be similar to that of previous statements. The main focus of the ECB statement will be its plans for an exit strategy from their various liquidity support measures.

Recent local data...

- > **International Travel and Migration (October):** A seasonally adjusted net 2,130 people arrived in October, taking the 12-month total to 18,560. Short-term visitor arrivals fell by 0.7 percent.
- > **ANZ-Roy Morgan Consumer Confidence (November):** Confidence slipped 4.4 points in the month to 121.5. The Future Conditions and the Current Condition indices fell 4.6 and 4.1 points respectively, although the gap between them remains very wide.
- > **RBNZ Survey of Expectations (December quarter):** Two year ahead inflation expectations rose to 2.6 percent, from 2.3 percent.
- > **NBNZ Business Outlook (November):** Headline confidence dipped 5 points to a net 43 percent expecting better times ahead. However, an improving trend was still apparent across the key sub-components of the survey, with own activity expectations and employment and investment intentions improving.
- > **Overseas Merchandise Trade (October):** A monthly deficit of \$487 million was recorded, taking the annual deficit to the lowest level since November 2002 (\$1,164 million).
- > **Credit Growth (October):** Total private sector credit growth rose a subdued 0.1 percent. Total household claims rose 0.4 percent.

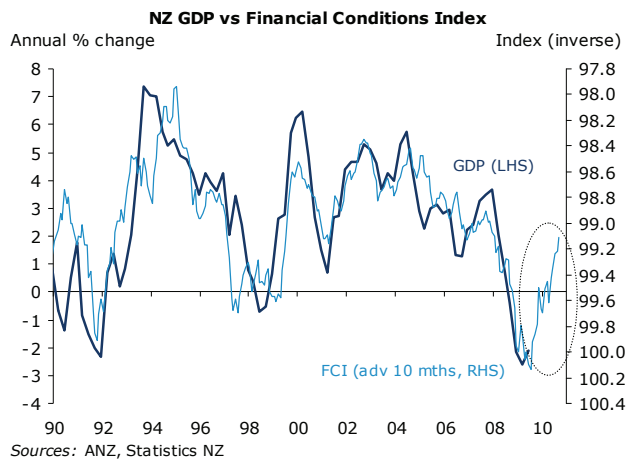
FINANCIAL CONDITIONS UPDATE

Our NZ Financial Conditions Index is pointing to a modest recovery over the year ahead. The recent pullback in the NZD and rising house prices has led to a loosening in conditions, offset by higher longer term mortgage rates. Our Australian Financial Conditions Index is pointing to above-trend growth next year.

Recovery looks on track in NZ

Financial conditions in NZ eased further over November, courtesy of a lower NZD and higher house prices. On a trade-weighted basis, the currency fell 3.2 percent over the month. Given that dairy prices continued to firm, the improvement in the currency will be even larger on a terms of trade-adjusted basis. Acting in the other direction, fixed mortgage rates rose during the month and equity prices, as well as rural and commercial property prices, fell.

Our Financial Conditions Index is flagging growth of 2 percent (on an annual percent basis) over the year ahead. This suggests the recovery that is currently underway remains on track, though the pace is more modest than that suggested by business confidence measures. Based on the National Bank *Business Outlook* own activity indicator, growth could be as high as 4 percent next year, while our composite growth indicator from the survey suggests growth of around 3 percent.



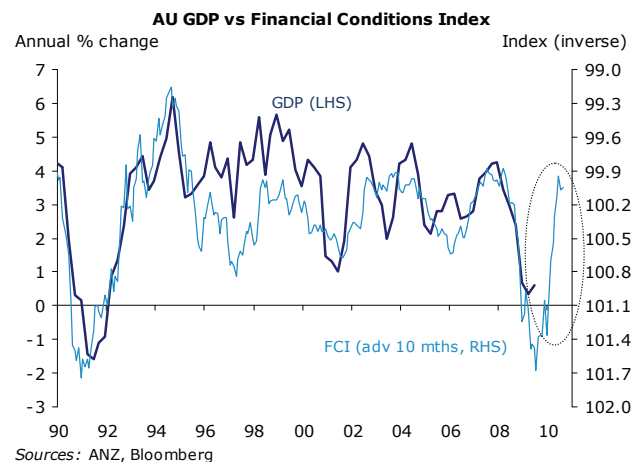
However, the main drivers of the easing in financial conditions highlight that the path ahead remains uncertain. The losses in the currency towards the end of the month were due to renewed risk aversion, which could yet result in a tightening in financial conditions down the track via other avenues, primarily lower equity prices, increases in credit default swap spreads and tougher lending standards. The resurgence in house prices is primarily a function of a lack of listings. NZ house prices still look expensive based

on fundamental valuation metrics (based on price to income, serviceability on fixed mortgage rates, and rental yield), which does not give it a sustainable feel.

We continue to be mindful of structural aspects to this economic cycle that may not be fully captured by our Financial Conditions Index. The recent widening in the basis swaps market, which we covered in last week's *Market Focus*, and increasing talk of tax changes relating to the property market are recent examples of this.

Australian growth looks set to accelerate

Financial conditions in Australia may have stabilised in recent months, but are still indicating an acceleration in growth in the year ahead. Despite the RBA removing the emergency rate settings in the past two months, and looking on track to raise the cash rate again tomorrow by 25bps to 3.75 percent, the AUD and swap yields have fallen over the month on the back of increased risk aversion. The Australian equity market may have fallen, but house prices continue to put on strong gains. Our Australian Financial Conditions Index is suggesting a return to above trend growth next year of around 4 percent. Such an outcome will certainly see the RBA continuing to take the cash rate towards less accommodative settings over time.



The upshot

Our NZ Financial Conditions Index is pointing in the same direction as other soft indicators such as confidence measures, suggesting that forward momentum is starting to gather pace, though some of it will be base effects at work. Nonetheless, our Financial Conditions Index is suggesting more modest growth in the year ahead. In contrast, our Australian Financial Conditions Index is indicating a return to above trend growth next year. Such an outcome would certainly further reinforce the diverging economic performance between the antipodeans, putting further downward pressure on the NZDAUD cross.

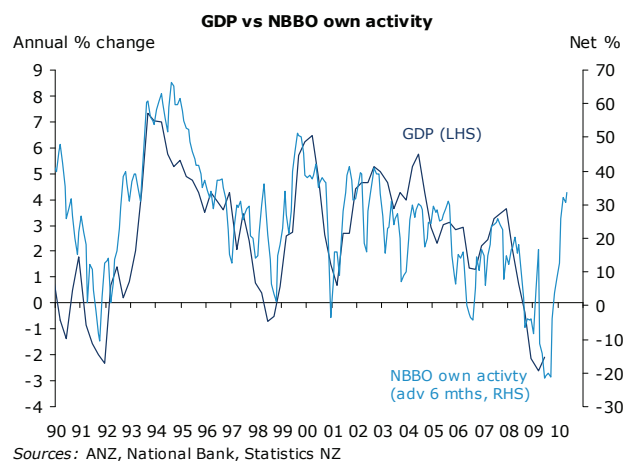
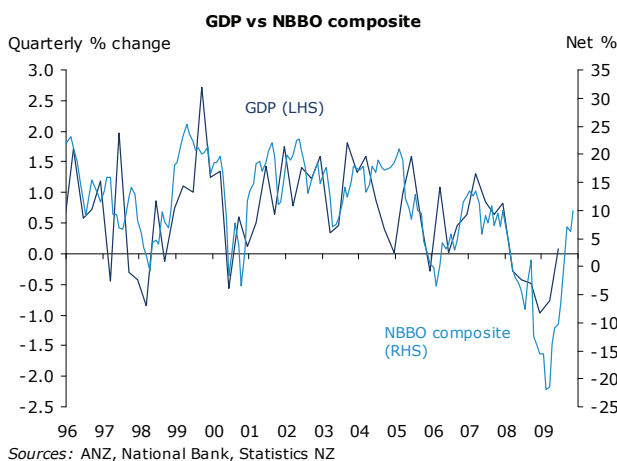
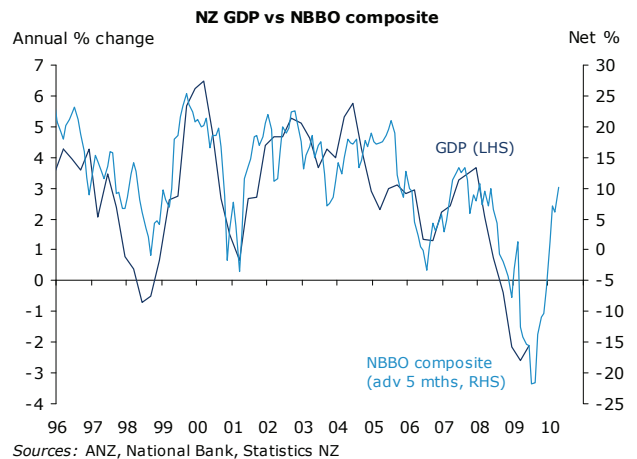
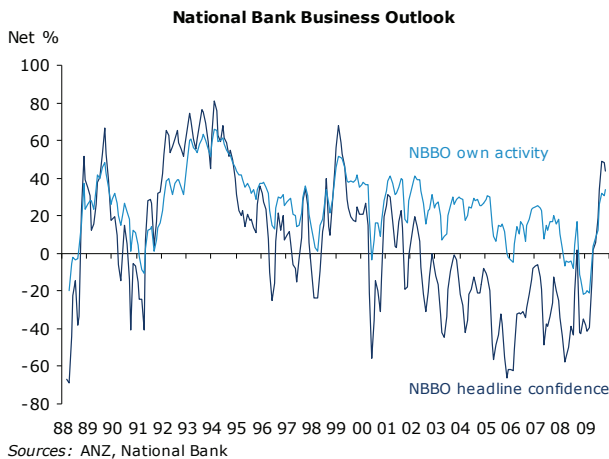
NATIONAL BANK BUSINESS OUTLOOK UPDATE

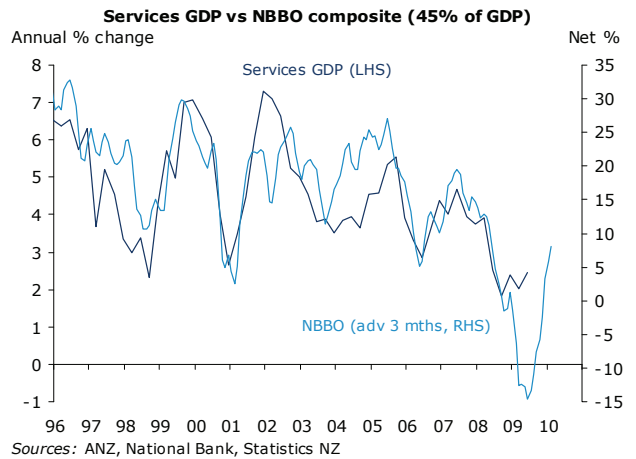
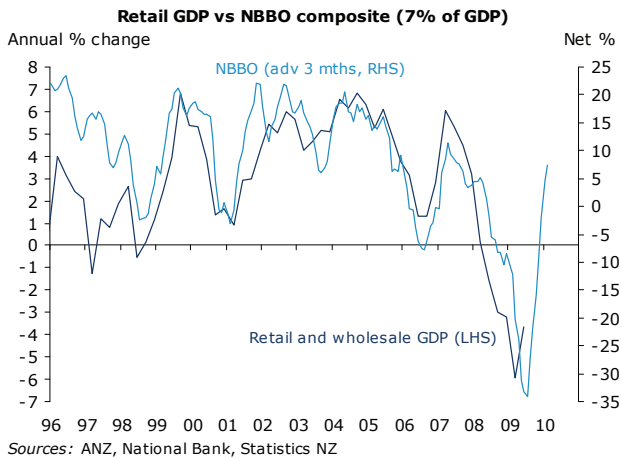
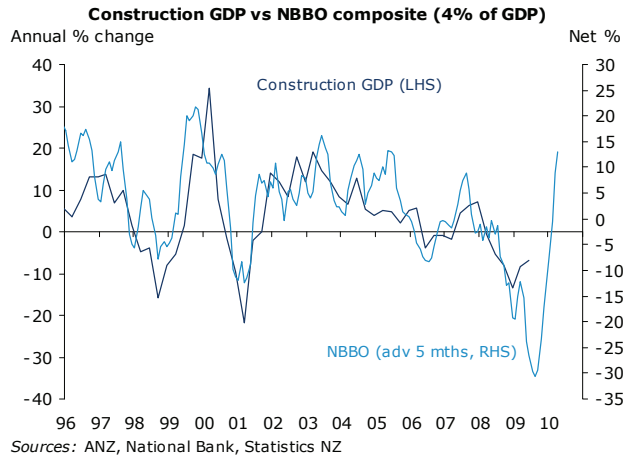
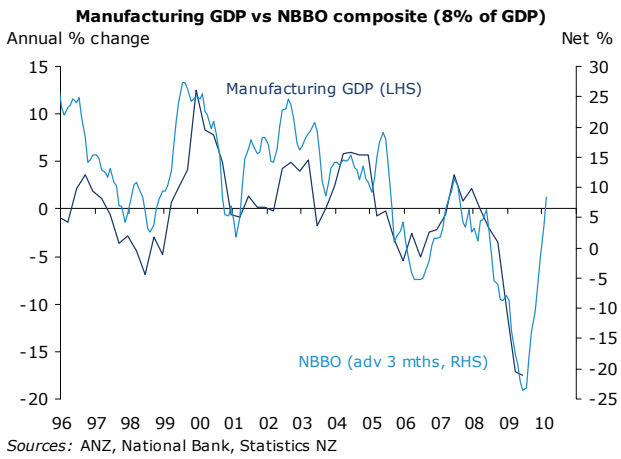
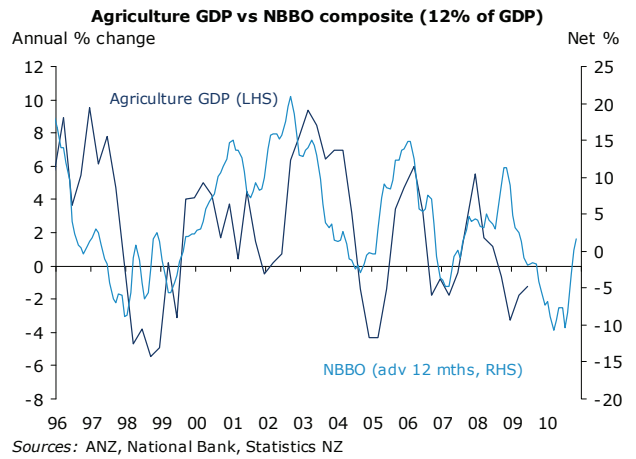
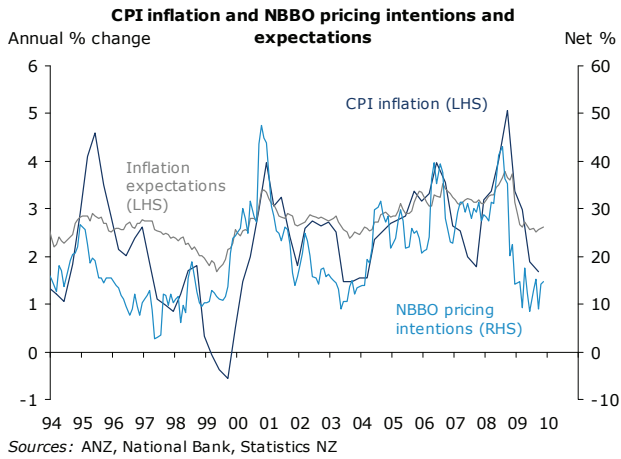
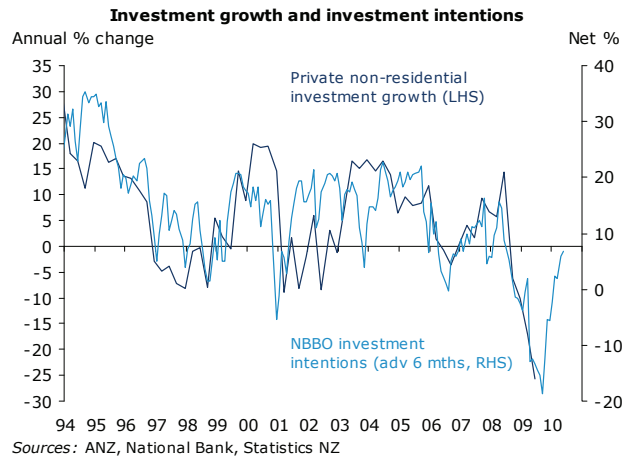
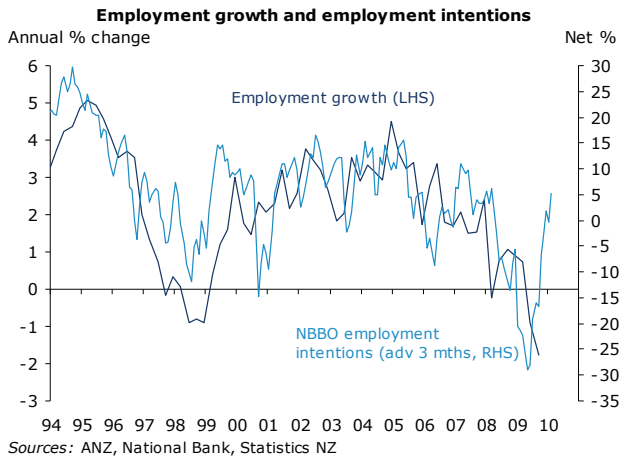
Economic momentum has continued to gather pace as we approach the end of the year, based on the latest National Bank *Business Outlook* survey. This momentum is spread across all the sectors within our survey, although it is the construction sector leading the charge. The manufacturing and agricultural sectors have been slower to turn, but also look set to experience improved performance over the coming months.

Headline business confidence may have pulled back in November, but the level remains healthy. Own activity expectations continued to move higher, a sign that the economic recovery remains on track. Investment intentions improved a touch, but generally still indicate a general freeze on capex by firms. Encouragingly, employment intentions improved indicating a turn in the labour market may be near, though most respondents still expect the unemployment rate to continue rising.

Our composite growth indicator is suggesting 3 percent growth in the year ahead. In terms of the sectoral split, construction is leading the charge, though a clear dichotomy is occurring between residential and commercial, with the former expecting strong improvements while the latter taking a big drop. The retail sector is expecting better sales ahead, while our manufacturing composite indicator suggests a trough is at hand.

Improving activity is not raising any red flags on the inflation front, based on the survey. Pricing intentions remain consistent with annual headline inflation remaining near the bottom of the RBNZ's target band, and inflation expectations are stable at 2.6 percent.





INTEREST RATE STRATEGY

The RBNZ decision is looming but global events are taking centre stage, and will continue to dominate the NZ rates market in the near term. We see potential for profit taking early this week to send yields higher, but any moves will likely be limited as the Dubai World fallout continues. We are likely to see some marginal carry through from the RBA decision.

Market themes...

- > Only one story last week – Dubai World – causing a global rates rally.
- > RBA likely to hike this week but the tone will be key.

Review and outlook...

Last week saw a corrective move higher in NZ swap yields early in the week, only for a sharp move lower on the Dubai World news. With initially little known of local and foreign bank exposures or the effect of a potential default, we saw a significant rally in Australia where momentum built on uncertainty and their market moved to price only a 40 percent chance of a December hike at one stage. The NZ market followed suit, rallying hard and with the US largely on holiday for Thanksgiving, the moves were largely on thin volume.

With concerns about bank exposure mounting, the December Eurodollar futures contract sold off as participants raced to hedge against a potential spike in Libor, caused by funding concerns. The initial sell off was up to 8bps but given that the United Arab Emirates central bank has given support to local and foreign banks over the weekend, we expect this move to be gradually unwound. We would also expect to see the Australian market selloff towards tomorrow's RBA meeting where we still expect a 25bp rate increase, and the NZ market to also follow as the Dubai debt problem becomes less of a risk to markets.

This week, the domestic data will give way to announcements from the 2025 Taskforce and the Tax Working Group. Should the government commit to a more aggressive fiscal consolidation strategy, which includes cutting back on government expenditure, this will give scope for monetary policy to remain more accommodative for longer. Market pricing has started to pare back from March, and we could see this move continue.

In terms of flow we saw little mortgage flow, good speculative receiving interest on the Dubai news and small corporate paying on the rally. There was interest to steepen the curve but outright offers to receive the long end seemed to

prevent a material change in the shape, resulting in the curve ending 3pts flatter through 2/10's. NZ rates along the curve are currently testing technical levels, with risks that they break to the down side. While the UAE news should hold them currently, any further bad news or a pause by the RBA tomorrow could see a significant break to the downside, especially with carry over the Christmas period so appealing.

Borrowing strategies we favour at present

Recent global events highlight the still uncertain environment we are in. We remain comfortable with our view of a September start to the tightening cycle, and continue to favour floating or the short end of the curve. Using cap-based strategies continue to have appeal to us as a way to hedge interest rate risk.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	We expect the MPS to repeat "on hold until the second half of 2010".
NZ data	↔/↑	Mixed bag with business confidence high but credit growth subdued.
Fed Funds / front end	↔	Fed committed to low rates for an extended period.
RBA	↔/↑	RBA likely to hike this week but a pause thereafter?
US 10 year	↔/↓	3.3% support level broken on safe-haven demand. 3% next big level.
NZ swap curve	↔	Interest to steepen the curve.
Flow	↔	Little mortgage flow, speculative receiving interest picking up.
Technicals	↔	Sitting on key technical levels. 4.22% next big support level for the 2-year.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 10-Dec-09	+1	+2
Thu 28-Jan-10	+2	+1
Thu 11-Mar-10	+7	+8
Thu 29-Apr-10	+32	+26
Thu 10-Jun-10	+64	+54
Thu 29-Jul-10	+100	+86
Thu 16-Sep-10	+136	+138

Trading themes we favour at present

Recent global risk aversion has seen rates rally, pushing NZ swap yields lower. We will not rule out a test of the key 4.22 percent support level, though payers will emerge to prevent it falling too far below that. We would favour paying if it got to that level.

CURRENCY STRATEGY

Dubai was the major driver of NZD fortunes last week. The world is certainly an inter-dependent place, and those countries with current account deficits remain the most vulnerable to seemingly non-related shocks. The RBA announcement and Fonterra auction will be the key focus this week. We are biased to moves higher for the NZD.

Market themes...

- > RBA: will they or won't they?
- > Equities still the biggest driver of currency moves.
- > Bernanke fighting for Federal Reserve independence.

Review and outlook...

Last week's concern over Dubai debt defaults lead to widespread risk aversion. The NZD was hit particularly hard, falling against all its major trading partners. Just as it seems to out-perform when risk appetites are strong, the reverse is also true. The world remains a fickle place. But to be fair, the Thanksgiving holiday in the US saw some reasonably thin markets and would have likely exacerbated the moves.

The Dubai meltdown was initially feared to be the second half of the "W", but we suspect things have been overdone. We see it more as a healthy correction, although it is also a reminder that risk appetites can turn on a dime. Widening credit default swap spreads were apparent the week prior in Japan and southern Europe. Nevertheless, with the same landscape of extremely low cash rates, a massively stimulatory environment and a lot of cash sitting on the side lines, the question to ask is what would a money manager do? And, they have to put cash to work.

The Fed on hold for an "extended period" will be likely to continue to provide funding for the carry trade. Any talk of a further corrective bounce in USD will be hard to maintain until the Fed signals rate hikes are imminent. The real risk is the carry trade is just getting started and the world discovers holding USD reserves can be very expensive.

But for all the theories and differing opinions on the path for the global economy, equity markets continue to define the direction of risk/growth/commodity currencies. Hence, the performance of the US and Chinese equity markets this week will need to be monitored closely. It will be interesting to gauge how US investors view the world following their Thanksgiving break. What is worrying is that Fed Chairman Bernanke is now having to defend the

Fed's independence. Any erosion of the Fed's ability to manage their exit strategies will likely concern all investors in the US economy.

Technically, the NZDUSD should have seen its lows at 0.7026. A first target at 0.7215, with an extension to near 0.7300, is the preferred scenario for the week. The NZDAUD should range trade this week. Although with RBA expected to lift rates again on Tuesday, this is likely to cement the downward trend towards 0.7700 into Christmas. The NZD looks to make gains on all other crosses.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Both softs and hards performing well.
Partial indicators	↔/↓	Both economies improving, but Aussie much faster.
Technicals	↔/↓	Range trade, but expect a retest of 0.7700 into Christmas.
Sentiment	↔/↓	Australia to go in December. RBNZ on hold.
Other	↔/↓	Asian central banks underweight Australian asset.
On balance	↔/↓	NZD struggling to keep up with AUD.

NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	In line with cyclical fair value.
Yield	↔	Both low for longer, but NZ market showing more impatience.
Commodities	↑	Soft commodities gaining momentum.
Risk aversion	↔	Equities still remain the key to watch.
Partial indicators	↔	Fonterra auction this week again key.
Technicals	↔/↑	Support found above 70 cents, target higher.
AUD	↑	First to hike in G20, more to come.
Sentiment	↔	Dubai concerns over-hyped.
Other	↔	Fed independence. Is it a concern?
On balance	↔/↑	Healthy correction near an end.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
30-Nov	NZ	Building Permits (Oct) - mom	-	3.3%	10:45
	JN	Nomura/JMMA Manufacturing PMI (Nov)	-	54.3	12:15
		Industrial Production (Oct P) - mom	2.5%	2.1%	12:50
		BoJ Governor Shirakawa to Speak in Nagoya	-	-	14:00
		Vehicle Production (Oct) - yoy	-	-21.6%	17:00
		Housing Starts (Oct) - yoy	-33.5%	-37.0%	18:00
		Construction Orders (Oct) - yoy	-	-14.0%	18:00
	AU	TD Securities Inflation (Nov) - mom	-	-0.3%	12:30
		HIA New Home Sales (Oct) - mom	-	-4.5%	13:00
		Private Sector Credit (Oct) - mom	0.2%	-0.2%	13:30
		Company Operating Profit (3Q) - qoq	0.0%	-7.8%	13:30
		Inventories (3Q)	-1.0%	-3.4%	13:30
	UK	GfK Consumer Confidence Survey (Nov)	-11	-13	13:01
		Net Consumer Credit (Oct)	-0.2B	-0.3B	22:30
		Mortgage Approvals (Oct)	57.0K	56.2K	22:30
		M4 Money Supply (Oct F) - mom	-	1.8%	22:30
	EC	CPI Estimate (Nov) - yoy	0.4%	-0.1%	23:00
1-Dec	NZ	Tax Working Group Conference	-	-	-
	US	Chicago Purchasing Manager (Nov)	53.3	54.2	03:45
		Dallas Fed Manufacturing Activity (Nov)	0.0%	-3.3%	04:30
	AU	AiG Performance of Manufacturing Index (Nov)	-	51.7	11:30
		Building Approvals (Oct) - mom	2.0%	2.7%	13:30
		RBA Cash Rate Announcement	3.75%	3.50%	16:30
		RBA Commodity Index SDR (Nov) - yoy	-	-31.1%	18:30
	JN	Vehicle Sales (Nov) - yoy	-	12.6%	18:00
	UK	Nationwide House prices (Nov) - mom	0.4%	0.4%	20:00
		PMI Manufacturing (Nov)	54.0	53.7	22:30
	GE	PMI Manufacturing (Nov F)	52.0	52.0	21:55
		Unemployment Change (000's) (Nov)	5K	-26K	21:55
		Unemployment Rate (s.a) (Nov)	8.1%	8.1%	21:55
	EC	PMI Manufacturing (Nov F)	51.0	51.0	22:00
		Unemployment Rate (Oct)	9.8%	9.7%	23:00
2-Dec	US	ISM Manufacturing (Nov)	54.8	55.7	04:00
		ISM Prices Paid (Nov)	65.0	65.0	04:00
		Pending Home Sales (Oct) - mom	-1.0%	6.1%	04:00
		Construction Spending (Oct) - mom	-0.5%	0.8%	04:00
		Fed's Plosser to Speak on Economic Outlook in Rochester, New York	-	-	06:00

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Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
2-Dec cont.	NZ	Fonterra to Announce Outcome of Monthly Milk Powder Auction	-	-	06:00
	EC	ECB's Tumpel-Gugerell speaks in Hofheim, Germany	-	-	07:00
		PPI (Oct) - mom	0.0%	-0.4%	23:00
	JN	Monetary Base (Nov) - yoy	-	4.4%	12:50
		BoJ Board Member Suda Will Speak in Kofu City	-	-	14:00
	UK	PMI Construction (Nov)	46.9	46.2	22:30
3-Dec	US	ADP Employment Change (Nov)	-150K	-203K	02:15
		Fed's Lacker Speaks on Economic Outlook in Charlotte, North Carolina	-	-	06:30
		Fed's Beige Book	-	-	08:00
		Fed's Sack Speaks in New York	-	-	13:00
	AU	AiG Performance of Service Index (Nov)	-	54.8	11:30
		Retail Sales (Oct) - mom	0.3%	-0.2%	14:30
	JN	Capital Spending (3Q)	-16.0%	-21.7%	12:50
	NZ	ANZ Commodity Price (Nov) - mom	-	4.6%	15:00
	GE	PMI Services (Nov F)	51.5	51.5	21:55
	EC	PMI Services (Nov F)	53.2	53.2	22:00
		Retail Sales (Oct) - mom	0.2%	-0.7%	23:00
		GDP (3Q P) - qoq	0.4%	0.4%	23:00
	UK	PMI Services (Nov)	57.0	56.9	22:30
4-Dec	EC	ECB Announces Interest Rates	1.00%	1.00%	01:45
		Trichet Speaks at ECB Monthly News Conference	-	-	02:30
	US	Non-Farm Productivity (3Q F)	8.5%	9.5%	02:30
		Unit Labour Costs (3Q F)	-4.2%	-5.2%	02:30
		Initial Jobless Claims (w/e Nov-29)	480K	466K	02:30
		Continuing Claims (w/e Nov-22)	5400K	5423K	02:30
		ISM Non-Manufacturing Composite (Nov)	51.5	50.6	04:00
		Fed's Bernanke Confirmation Hearing Held in Senate Banking Committee	-	-	04:00
	NZ	Government Financial Statements as at Oct 31	-	-	10:00
5-Dec	EC	ECB's Bini Smaghi Speaks in London	-	-	01:30
		Change in Non-Farm Payrolls (Nov)	-120K	-190K	02:30
		Unemployment Rate (Nov)	10.2%	10.2%	02:30
		Average Hourly Earnings (Nov) - mom	0.2%	0.3%	02:30
		Average Weekly Hours (Nov)	33.1	33.0	02:30
		Factory Orders (Oct)	0.0%	0.9%	04:00
		Fed's Plosser to Speak on Lessons from the Financial Crisis	-	-	04:00
		Fed's Bullard Speaks on Panel on Crisis in Philadelphia	-	-	07:15

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States. Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: We are on the home stretch for 2009, with plenty to chew on before the country shuts down for the Christmas/New Year period. The RBNZ decision will be important, but we will be paying just as much attention to the Government's *Half-Year Update* and *Budget Policy Statement*. Signs of a more aggressive fiscal consolidation strategy mean monetary policy will need to do less.

Date	Data/Event	Economic Signal	Comment
Wed 2 Dec (early morning)	Fonterra Online DairyTrade auction results	Another increase?	USDA wholemilk powder prices have risen slightly over the past few weeks and we expect the Fonterra auction results to also reflect this.
Thu 3 Dec (15.00)	ANZ Commodity Price Index (Nov)	-	-
Fri 4 Dec (10.00)	Financial Statements of Government for the four months ended October	Further into the red	The underlying operating deficit is expected to remain weaker than forecast as a lower tax take weighs. Improvement in financial markets should help to boost the headline operating balance.
Mon 7 Dec (10.45)	Wholesale Trade Survey (Sep qtr)	Subdued	Following flat retail sales volumes in the quarter, we expect a similar result for wholesale trade.
Tue 8 Dec (10.45)	Value of Building Work Put in Place (Sep qtr)	Non-residential to be particularly weak	We expect both residential and non-residential construction volumes to be weak in the quarter, although particularly so for the latter.
Tue 8 Dec	Economic Survey of Manufacturing (Sep qtr)	An improvement	The BNZ-Business NZ PMI survey has moved back into expansion territory. A rebuilding of inventories is likely to contribute to improved manufacturing production.
Wed 9 Dec (10.45)	Electronic Card Transactions (Nov)	Improving, but growth subdued.	Despite stimulus from net migration and low interest rates, headwinds for consumers remain strong. Volatility aside, we expect a reasonably subdued result.
Thu 10 Dec (09.00)	RBNZ December <i>Monetary Policy Statement</i>	The same message	In our view, there have been limited developments since the October <i>Review</i> to see the RBNZ shift from their "on hold until the second half of 2010" view on rates.
Thu 10 Dec (10.45)	Overseas Trade Indexes (Sep qtr)	Terms of trade recovering	We expect the terms of trade to be largely flat in the quarter. But recovering commodity prices will see an improvement from Q4. In terms of volumes, we expect both export and imports to fall slightly leading to a small negative net export contribution to GDP.
Mon 14 Dec (10.45)	Retail Trade Survey (Oct)	Cautiousness prevails	Despite the improvements seen in consumer confidence, this is not flowing through into actual spending decisions. De-leveraging and a weak labour market remain big headwinds.
Tue 15 Dec (14.00)	Government's <i>Half-Year Economic and Fiscal Update</i> and <i>Budget Policy Statement</i>	How bad?	Recent rhetoric from the Minister of Finance appears to be prepping for what looks likely to be a reasonably tight Budget next year. We expect the fiscal forecasts to show the fiscal position remaining under significant pressure for some time yet.
Thu 17 Dec (15.00)	NBNZ <i>Business Outlook</i> (Dec)	-	-
Mon 21 Dec (10.45)	International Travel and Migration (Nov)	Still supportive	A net inflow of migration is expected to continue as departures remain low.
Tue 22 Dec (10.45)	Balance of Payments (Sep qtr)	Another big improvement	The current account deficit is expected to show a sharp improvement in the quarter due to an improved trade balance as well as lower profits from foreign firms.
Wed 23 Dec (10.45)	GDP (Sep qtr)	Gaining some forward momentum	A number of partial indicators are still due, but we have pencilled in a quarterly increase of 0.5 percent, with upside risk.
On Balance		Up	Right direction, wrong mix.

SUMMARY OF KEY ECONOMIC FORECASTS

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
GDP (% qoq)	-0.5	-1.0	-0.8	0.1	0.5	0.8	0.6	0.6	0.6	0.5
GDP (% yoy)	-0.4	-2.2	-2.6	-2.1	-1.2	0.6	2.0	2.5	2.6	2.3
CPI (% qoq)	1.5	-0.5	0.3	0.6	1.3	0.4	0.3	0.7	0.7	0.8
CPI (% yoy)	5.1	3.4	3.0	1.9	1.7	2.5	2.5	2.7	2.1	2.5
Employment (% qoq)	0.1	0.7	-1.4	-0.4	-0.7	-0.1	0.0	0.1	0.3	0.4
Employment (% yoy)	1.1	0.9	0.7	-0.9	-1.8	-2.5	-1.2	-0.7	0.3	0.8
Unemployment Rate (% sa)	4.3	4.7	5.0	6.0	6.5	6.8	7.0	7.1	7.1	7.0
Current Account (% GDP)	-8.6	-8.9	-8.1	-5.9	-4.2	-3.5	-3.7	-4.7	-5.5	-5.6
Terms of Trade (% qoq)	-1.0	-1.0	-2.7	-8.9	1.0	1.1	0.5	0.0	0.2	0.1
Terms of Trade (% yoy)	5.8	1.8	-5.0	-13.1	-11.4	-9.5	-6.6	2.6	1.7	0.7

KEY ECONOMIC INDICATORS

	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
Retail Sales (% mom)	0.2	-0.1	0.5	0.7	0.0	-0.5	1.1	0.2
Retail Sales (% yoy)	-6.9	-1.9	-1.7	-2.4	-1.1	-1.4	-1.1	-0.5
Credit Card Billings (% mom)	1.1	-3.2	2.6	-0.3	0.1	0.3	1.4	-1.0	0.2	..
Credit Card Billings (% yoy)	-1.9	-4.7	-1.6	-2.3	-2.1	-1.9	0.1	-2.3	-0.4	..
Car Registrations (% mom)	-14.6	6.3	-0.6	-2.6	6.2	7.2	-2.6	6.7	0.9	..
Car Registrations (% yoy)	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	..
Building Consents (% mom)	11.9	-1.8	11.8	2.8	-9.1	4.0	1.7	3.4
Building Consents (% yoy)	-39.8	-34.4	-56.5	-23.5	-23.8	-16.7	-8.9	-12.7
REINZ House Price (% yoy)	-2.2	-4.0	-1.4	-2.2	0.0	0.0	5.1	6.1	6.0	..
Household Lending Growth (% mom)	0.1	0.0	0.2	0.4	0.1	0.3	0.3	0.3	0.4	..
Household Lending Growth (% yoy)	3.1	2.7	2.5	2.5	2.3	2.4	2.3	2.3	2.6	..
ANZ-Roy Morgan Consumer Confidence	97.1	93.4	104.6	105.8	103.4	107.8	112.3	120.0	125.9	121.5
NBNZ Business Confidence	-41.2	-39.3	-14.5	1.9	5.5	18.7	34.2	49.1	48.2	43.4
NBNZ Own Activity Outlook	-20.1	-21.2	-3.8	3.8	8.3	12.6	26.0	32.2	30.5	33.7
Trade Balance (\$m)	483	438	322	906	-331	-178	-717	-563	-487	..
Trade Balance (\$m annual)	-5165	-4684	-4070	-2994	-3110	-2491	-2360	-1671	-1164	..
ANZ World Commodity Price Index (% mom)	-4.6	1.0	2.6	2.8	0.2	1.0	4.4	6.8	4.6	..
ANZ World Commodity Price Index (% yoy)	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0	-1.6	..
Net Migration (sa)	1620	1680	2050	2590	1670	2480	1650	1860	2130	..
Net Migration (annual)	6160	7482	9176	11202	12515	14488	15642	17043	18560	..

Figures in bold are forecasts. mom: Month-on-Month qoq: Quarter-on-Quarter yoy: Year-on-Year

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Sep-09	Oct-09	30-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.702	0.737	0.714	0.710	0.720	0.710	0.690	0.680	0.670	0.650
NZD/AUD	0.816	0.815	0.782	0.798	0.783	0.780	0.775	0.782	0.788	0.793
NZD/EUR	0.482	0.498	0.476	0.480	0.474	0.473	0.466	0.463	0.459	0.455
NZD/JPY	64.2	66.5	61.9	62.5	61.9	62.5	62.1	62.6	63.0	61.8
NZD/GBP	0.430	0.456	0.433	0.425	0.431	0.430	0.421	0.412	0.404	0.389
NZ\$ TWI	64.3	66.4	63.49	63.8	63.6	63.3	62.3	61.9	61.6	60.6
NZ interest rates	Sep-09	Oct-09	30-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.73	2.75	2.50	2.50	2.50	2.50	3.00	4.00	4.50	5.00
90 day bill	2.77	2.79	2.82	2.80	2.80	2.80	3.60	4.50	5.00	5.50
10 year bond	5.82	5.78	5.61	5.60	5.60	5.70	6.00	6.10	6.30	6.50
International	Sep-09	Oct-09	30-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25	1.75
US 3-mth	0.29	0.36	0.26	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.25	3.50	3.50	4.00	4.00	4.00	4.00	4.00	4.50
AU 3-mth	3.38	3.68	3.98	3.90	4.40	4.30	4.30	4.30	4.50	5.00

KEY RATES

	27 Oct	23 Nov	24 Nov	25 Nov	26 Nov	27 Nov
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.80	2.79	2.80	2.80	2.79	2.81
NZGB 11/11	4.52	4.12	4.13	4.13	4.10	4.02
NZGB 04/13	5.28	4.82	4.84	4.83	4.81	4.73
NZGB 12/17	5.83	5.68	5.70	5.70	5.67	5.60
NZGB 05/21	6.10	5.99	6.01	5.99	5.96	5.89
2 year swap	4.75	4.40	4.41	4.39	4.37	4.30
5 year swap	5.76	5.54	5.53	5.51	5.48	5.43
RBNZ TWI	67.2	64.8	64.9	64.8	64.3	63.3
NZD/USD	0.7479	0.7254	0.7279	0.7288	0.7260	0.7106
NZD/AUD	0.8141	0.7899	0.7906	0.7873	0.7849	0.7855
NZD/JPY	68.86	64.50	64.71	64.34	63.28	61.13
NZD/GBP	0.4582	0.4392	0.4393	0.4387	0.4345	0.4333
NZD/EUR	0.5024	0.4861	0.4871	0.4863	0.4805	0.4757
AUD/USD	0.9187	0.9183	0.9207	0.9257	0.9249	0.9046
EUR/USD	1.4888	1.4923	1.4944	1.4988	1.5109	1.4939
USD/JPY	92.07	88.91	88.90	88.28	87.16	86.03
GBP/USD	1.6324	1.6517	1.6569	1.6612	1.6709	1.6398
Oil	79.45	76.83	76.49	74.88	77.25	75.38
Gold	1038.70	1163.75	1164.15	1177.20	1194.35	1187.05
Electricity (Haywards)	2.53	6.49	6.23	6.65	6.48	8.06
Milk futures (US\$/contract)	115	124	124	124	n/a	124
Baltic Dry Freight Index	3013	4423	4340	4234	4119	3974

NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing

Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

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In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;

- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

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- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

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The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

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If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

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Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

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The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

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The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

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ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail ecnmcs@anz.com