

NEW ZEALAND ECONOMICS MARKET FOCUS

1 August 2011

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NOT MUCH LONGER

ECONOMIC OVERVIEW

The July OCR Review confirmed that with the emergency having passed, a 2.5 percent OCR is on borrowed time. With markets shifting towards serving up a 50bp hike on a platter for September (with 34 points priced in this morning), the path of least resistance looks set to be taken. Business confidence for July suggests that the recovery is gaining traction, both in and outside of Canterbury. Domestic prospects are looking upbeat. Challenges remain, with continuing uncertainties over the global economy and turbo-charged NZD set to lessen the amount of work the OCR will need to do. Labour market data this week is expected to confirm the improving tone. A lower unemployment rate will lock in the 50bp tightening in September.

NZ FINANCIAL CONDITIONS UPDATE

Assuming a further 5 percent rise in the NZD, flat commodity and asset prices, and lifts in the OCR (as shown in current marketing pricing), the tightening in financial conditions implies 2 percent growth in 2012. While there are numerous non-financial conditions metrics that will support 2012 such as the earthquake rebuild, such an outcome still implies a huge amount of tension within the economy. While the New Zealand economy looks better than most global peers at present, its outperformance could quickly dissipate if the NZD continues its rampant run.

LABOUR MARKET PREVIEW

As implied by partial indicators, we expect signs of labour market recovery to be evident in this week's Q2 labour market data. Employment is expected to increase 0.3 percent, with the unemployment rate declining to 6.4 percent. A key assumption we are relying on is that previous volatility in the HLFS has stabilised and the seesaw pattern of good-bad results has ceased. Wage growth is recovering from cyclical lows, and the RBNZ will be alert to the risk of a wage and price spiral eventuating.

INTEREST RATE STRATEGY

It seems clear by the RBNZ's choice of language that the strong NZD will not interfere with the need to take back March's "insurance" OCR cut in fairly short order. A 50 basis point hike in September looks likely. However, the high NZD could temper later policy decisions, which is something the market hasn't yet fully considered. The US debt ceiling debate looks no closer to resolution, and along with tomorrow's RBA meeting, this makes for enormous event risk. But don't lose sight of European markets, where peripheral bond yields keep rising.

CURRENCY STRATEGY

This week is all about the US debt situation. We expect the debt ceiling to be raised, averting an immediate default but only expect a short term knee-jerk reaction favouring the USD. A US downgrade seems likely now despite any resolution. Last week's RBNZ message was unequivocal as to where to from here, with a 50bp hike in September almost a done deal. The NZD made its expected feature in the statement but current direction is more about USD weakness and a lack of natural sellers. Further post float highs for NZD is likely, but a surprise RBA hike, which our Australian economists are picking, will provide some relief on the cross.

ECONOMIC OVERVIEW

SUMMARY

The July OCR Review confirmed that with the emergency having passed, a 2.5 percent OCR is on borrowed time. With markets shifting towards serving up a 50bp hike on a platter for September (with 34 points priced in this morning), the path of least resistance looks set to be taken. Business confidence for July suggests that the recovery is gaining traction, both in and outside of Canterbury. Domestic prospects are looking upbeat. Challenges remain, with continuing uncertainties over the global economy and turbo-charged NZD set to lessen the amount of work the OCR will need to do. Labour market data this week is expected to confirm the improving tone. A lower unemployment rate will lock in the 50bp tightening in September.

THIS WEEK'S EVENTS

ANZ Commodity Price Index – July (Monday, August 1, 1:00pm).

SNZ Labour Cost Index - Q2 (Tuesday, August 2, 10:45am). We expect a 0.5 percent increase in private sector salary and wage rates. Please see our labour market preview on page 6.

SNZ Quarterly Employment Survey – Q2 (Tuesday, August 2, 10:45am). We expect a 0.7 percent increase in private sector average hourly earnings. Filled jobs and paid hours are expected to increase by 0.6 percent.

GlobalDairyTrade auction (Wednesday, early am). We expect a 2 percent fall in whole milk powder prices to around US \$3,400/tonne.

SNZ Household Labour Force Survey – Q2 (Thursday, August 4, 10:45am). A 0.3 percent increase in employment is expected, with the unemployment rate forecast to fall to 6.4 percent.

WHAT'S THE VIEW?

Last week's RBNZ statement accompanying their no change decision has to be one of their shortest. It was direct and to the point. **But in our view, it is one of the better statements we have seen in a long while, though we are aware some have expressed huge misgivings.** It wasn't perfect (with a 2.5 percent inflation target seemingly implied), but when we eye up the challenge of a) making it clear that interest rates are heading up and b) not wanting to turbo-charge the NZD further; to see a muted reaction on the day was nothing short of startling.

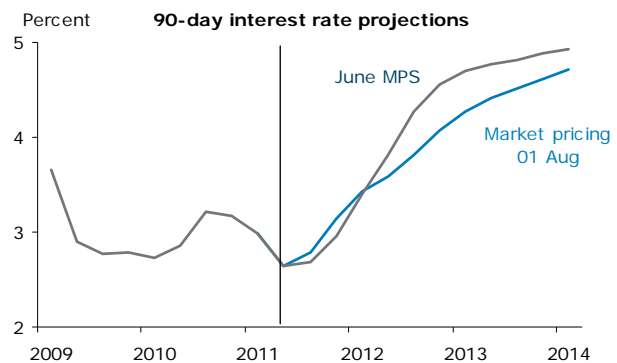
With markets shifting towards serving up a 50bp hike on a platter for September (with

much of this already factored in to market pricing), the path of least resistance looks set to be taken. Of course global ructions could derail this, but at present we suspect the muddle-though dynamic that seems to be inflicting the global economy will keep the RBNZ sticking to the removal of the 50bp insurance cut. Or put another way, we're not expecting the global scene including sovereign challenges to get any worse, which is not to be confused with expectations we're going to see things settle down either.

The more important question at present is what happens beyond that. We're aware of some lofty views on the OCR endpoint, which seem to be based on a combination of history, a view that natural disasters tend to be inflationary and belief that the change in household savings behaviour to date is cyclical as opposed to structural.

While we believe the RBNZ should quickly move to remove the insurance cut, we're far more tempered in our view of where we think the OCR will end up and how quickly this will be done. Something around the mid-4's seems logical to us when you consider prudential policy changes and the slope of the interest rate curve. And on top of that we have:

- The realities of post crisis healing. We remain sceptical over how well Europe will cope with its debt crisis. While attention at present is US centric, it's Europe that our sovereign risk analysis keeps us alert to (refer to our June 20 *Market Focus* for our most recent update).
- The turbo-charged currency, against a backdrop of easing soft commodity prices.
- The experience of Australia. There is a growing chorus 5 percent will be the peak in their tightening cycle, so why we'd push beyond that puzzles us.

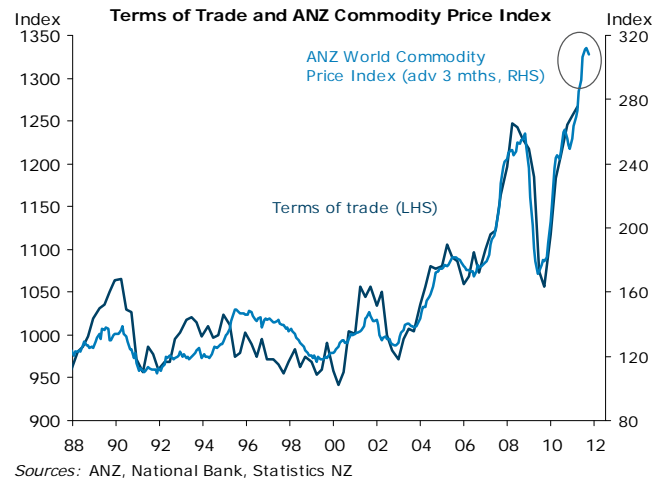
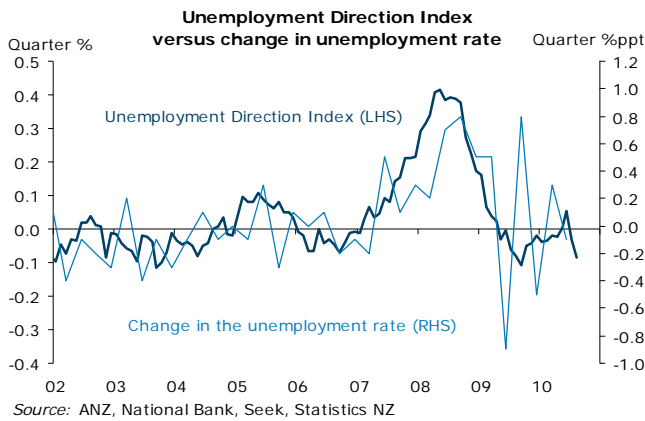


Sources: ANZ, National Bank, RBNZ, Bloomberg

ECONOMIC OVERVIEW

So after sitting at the hawkish end of the interest rate spectrum over the past few months, warning of the need for the insurance cut to be removed, **we're more agnostic and cautious at present over what to expect beyond the 75 basis points of hikes we expect before year-end.** One of the concerns we have is that the high NZD will weigh on export sector activity. In our NZ update on financial conditions on page 5, we examine the impact on NZ growth prospects if the NZD remains at stratospheric levels. Under a scenario of a 5 percent rise in the NZD, flat commodity and asset prices and higher OCR, growth could slow towards 2 percent next year, which will no doubt encourage more caution from the RBNZ.

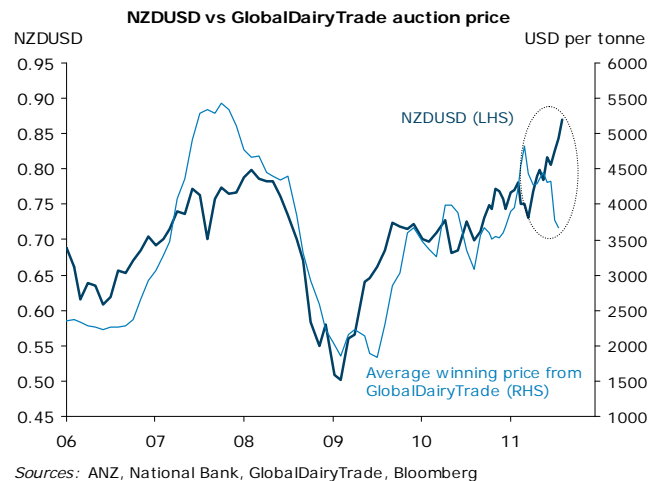
and are an important source of economic support. How the gains are distributed will depend on the exchange rate, and at the moment more support is being conferred to the spending side of the economy, rather than the earning side.



We believe two domestic areas the RBNZ will continue to focus on include the labour market and inflation expectations. **This week's labour market data is expected to continue to show continued recovery and is unlikely to be an impediment towards a September tightening.** The trifecta of improving business sentiment, increasing job advertising and fewer persons on the dole queue points to a tightening labour market. The key will be the extent that wages behave themselves. We flag an acceleration of wage growth by the end of the year as a major risk. The message in the July OCR Review for wage setters to "focus on underlying inflation" (i.e. something closer to the midpoint than the 5 percent plus headline CPI rate), shows that the RBNZ is also concerned on this front.

Wednesday's *GlobalDairyTrade* auction will also have important implications for the NZ economy and perhaps the NZD, although the currency markets don't appear to have gotten the message yet. We expect a further fall in dairy prices, underpinned by a seasonal increase in volumes being traded and increased buyer resistance. Whole milk powder prices are expected to ease towards the US \$3,400/tonne level. A quarter below March 2011 highs, but still more than 40 percent above post 1996 averages.

Commodity price data this week will provide a crucial heads up on the extent to which global concerns could affect the economic rebalancing. The strong terms of trade have provided a significant boost to the economy, and there is scope for further improvement. The ANZ Commodity Price Index for July is out today at 1pm. We will not comment here, suffice to say that commodity export prices are at historically high levels



RECENT LOCAL DATA

SNZ Overseas Merchandise Trade – June. A monthly trade surplus of \$230m was recorded with the annual trade surplus at \$1,021m.



ECONOMIC OVERVIEW

National Bank Business Outlook – July. A net 48 percent of businesses expect better times for the economy over the coming year. Firms' own activity rose 5 points to +44, with employment and investment intentions rising.

RBNZ July OCR Review – July. The OCR was held at 2.5 percent. "Provided current global financial risks recede and the economy continues to recover, the Bank sees little need for the March 2011 'insurance' cut to remain in place much longer".

SNZ Building Consents – June. The number of dwelling consents eased a seasonally adjusted 1.4 percent (-4.5 percent ex-apartments). The value of non-residential consents fell 13 percent s.a. to \$275m.

RBNZ Credit Aggregates – June. Private sector credit (resident ex repo) was 1.4 percent higher than 12 months earlier. Household credit rose 1.1 percent y/y, with business credit 0.7 percent higher than 12 months earlier. Agricultural credit fell 0.4 percent y/y.

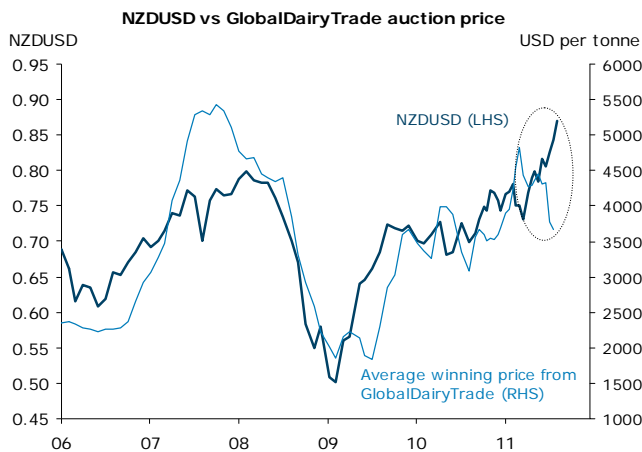
NZ FINANCIAL CONDITIONS UPDATE

SUMMARY

Assuming a further 5 percent rise in the NZD, flat commodity and asset prices, and lifts in the OCR (as shown in current marketing pricing), the tightening in financial conditions implies 2 percent growth in 2012. While there are numerous non-financial conditions metrics that will support 2012 such as the earthquake rebuild, such an outcome still implies a huge amount of tension within the economy. While the New Zealand economy looks better than most global peers at present, its outperformance could quickly dissipate if the NZD continues its rampant run.

GETTING AHEAD OF ITSELF?

The NZD has reached yet another post float high today. And in the current backdrop of USD weakness, the trend is set to remain your friend for a while longer, and that means that the NZD's run is not over yet. Especially with the RBNZ set to hike interest rates in September. Yet, the strong appreciation in the NZD has occurred at a time when global dairy prices have come off their highs. The average winning price from the *GlobalDairyTrade* auction has fallen 24 percent since early March. Over that time, the NZDUSD has risen by 16 percent.

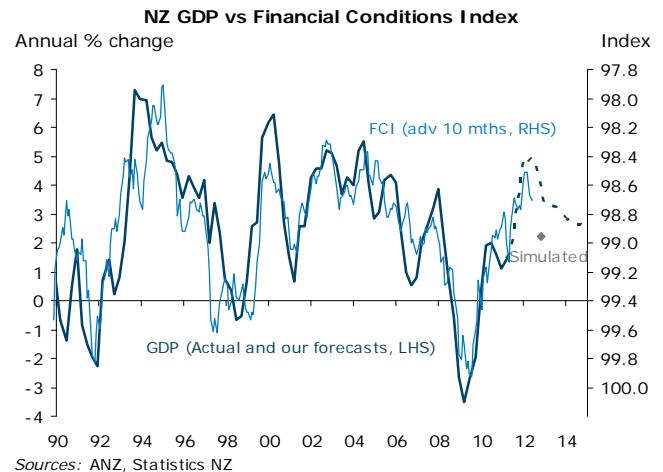


Sources: ANZ, National Bank, GlobalDairyTrade, Bloomberg

The strong rise in the NZD has acted to tighten financial conditions over the past month. Though our proprietary Financial Conditions Index¹ (FCI) is still supportive of economic prospects and suggests that the economy is set to accelerate over the second half of the year, the tightening in conditions of late potentially could shave around $\frac{3}{4}$ percentage points off

¹ A financial conditions index summarises a range of financial variables into a single series that can be used to predict the future path of the economy. Where available, our FCI includes the currency adjusted for commodity prices or terms of trade movements, interest rates, asset prices, credit growth and proxies for the cost and availability of credit.

growth. Current FCI levels are consistent with around 4 percent year-on-year growth by early next year. Still decent, but not as strong as what it could potentially have been had the currency not risen as much.



Sources: ANZ, Statistics NZ

But what if the NZD continues to press ahead and the RBNZ does the same? We are in no doubt that at some point a higher currency will derail the expansion and prevent the much needed rebalancing of the economy. The RBNZ last week noted that "the current very high value of the New Zealand dollar is acting as a drag on the New Zealand economy." To see how growth could be affected, we use our FCI. We assume that the TWI appreciates by another 5 percent and stays there through 2012 and the RBNZ raises the OCR by 75bps by the end of the year and 75 basis points in 2012 in line with market pricing. We further assume that commodity prices stay flat (whereas technically NZ's basket is actually easing) for the rest of the year, as do asset prices. Our FCI shows a large tightening in financial conditions, which is consistent with growth easing off to around 2 percent by the end of next year.

THE UPSHOT

The simulation we have undertaken is simplistic, but still useful in gauging the point at which the currency starts to materially impact on growth prospects. **A 2 percent growth rate in 2012 could well remove 2012 RBNZ rate hikes from the table.** However, we recognise that earthquake reconstruction activity, which is not dependent on financial conditions, will boost growth by around 2 percentage points next year. But tighter financial conditions will pose challenges for the tradable sector, particularly if we are not getting some offset from rising commodity prices this time. Ultimately, fundamentals will win out. It may take a while though.

2011Q2 LABOUR MARKET PREVIEW

SUMMARY

As implied by partial indicators, we expect signs of labour market recovery to be evident in this week's Q2 labour market data. Employment is expected to increase 0.3 percent, with the unemployment rate declining to 6.4 percent. A key assumption we are relying on is that previous volatility in the HLFS has stabilised and the seesaw pattern of good-bad results has ceased. Wage growth is recovering from cyclical lows, and the RBNZ will be alert to the risk of a wage and price spiral eventuating.

FURTHER RECOVERY EVIDENT

June 2011 quarter expectations		
	Our Forecast	Market
LCI salary and wage ordinary time (private sector)	+0.5% q/q +2.1% y/y	+0.5% q/q +2.1% y/y
QES salary and wage ordinary time (private sector)	+0.7% q/q +2.6% y/y	+0.8%q/q +2.7% y/y
HLFS unemployment rate (s.a.)	6.4%	6.5%
HLFS participation rate (s.a.)	68.6%	68.4%
HLFS employment growth	+0.3% q/q +2.3% y/y	0.0% q/q +2.0% y/y

Labour market indicators suggest the demand for labour is strengthening.

- **Survey measures, while not conclusive, point to strengthening labour market activity.** Past employment intentions from the Q2 QSBO survey dipped, but expected employment intentions firmed. Employment intentions from the NBBO strengthened in the June quarter, particularly in manufacturing, construction and services.
- **Although admittedly from a low base, job advertising is continuing to pick up.** There was a 17 percent increase in newspaper ads in Q2, whereas our composite measure (a weighted average of newsprint and internet ads) showed an 11 percent increase.
- **There are fewer people on benefits.** Numbers on the unemployment benefit have declined by nearly 6,000 persons between March and June, with the number of persons on the dole the lowest since mid 2009.

On the employment front, we expect a 0.3 percent increase in HLFS employment growth.

This will take annual employment growth to above 2 percent. The unemployment rate is expected to ease to 6.4 percent, continuing the improvement seen since the start of the year. We are likely to see a stronger increase in HLFS hours worked, considering

the potential likelihood for Q1 earthquake disruptions to reverse. Hours worked per employee reached cyclical lows in Q1 and there is considerable scope to move higher. We are assuming that signs of firmer demand for labour will keep more people actively engaged in the labour market, with the labour force participation rate expected to remain high. Last week's data for the working age population suggested reasonable growth, despite a small net migration outflow in the June quarter.

While we are quite comfortable around our below consensus call for the unemployment rate, risks around our Q2 HLFS employment pick are on the downside. The March quarter HLFS unemployment rate readings did not characterise the seasonal see-saw pattern of late, but we are still wary of the possibility of some statistical payback from the strong Q1 employment readings. There is also the possibility that the fall in registered unemployment numbers and greater job advertising reflects capacity constraints being approached more quickly than what we assume.

Despite the increase in the minimum wage, Tuesday's wage data is expected to highlight moderate rates of wage growth. Most workers generally have little bargaining power at present and have to take what they can get. **Nevertheless, wage growth looks to have bottomed and is now on the way up.** Increasing skill shortages look set to generate a broad-based pick up in wage growth by the end of the year. We expect differences in wage settlements to become increasingly evident. Those for the public sector and retail should remain low, but pending labour shortages in the technical skills area are expected to become increasingly evident. **The risk is that wages firm more quickly than what we assume.** This is an area of some discomfort to the RBNZ, with the July OCR Review urging wage and price setters to focus on underlying inflation, even if this is above the mid-point of the target band. We will also pay close attention to wage rates in the construction sector. The June quarter CPI and our internal anecdotes suggest construction sector wages are starting to pick up.

MARKET IMPLICATIONS

The labour market is starting to firm, and this week's local labour market data is expected to support the case for the RBNZ removing March's "insurance cut" in September. More signs of vigour on the wage front will come at an awkward time for the RBNZ considering the level of the NZD and global concerns. If wages start to take on a life of their own, tough talk will soon need to be followed up with action.

INTEREST RATE STRATEGY

SUMMARY

It seems clear by the RBNZ's choice of language that the strong NZD will not interfere with the need to take back March's "insurance" OCR cut in fairly short order. A 50 basis point hike in September looks likely. However, the high NZD could temper later policy decisions, which is something the market hasn't yet fully considered. The US debt ceiling debate looks no closer to resolution, and along with tomorrow's RBA meeting, this makes for enormous event risk. But don't lose sight of European markets, where peripheral bond yields keep rising.

MARKET THEMES

- The RBNZ have made it clear: the OCR will not stay at 2.5 percent for "much longer". But the high NZD will be more influential further out if strength persists.
- If agreement on the US debt ceiling is reached, it will entail fiscal tightening. If not, the government will go into partial shutdown, further hampering growth. These are ripe conditions for bond holders.
- NZ remains a relative safe haven. While Europe "burns", this will keep a lid on long term interest rates.

REVIEW AND OUTLOOK

The message from last week's OCR Review is clear: **the OCR is on borrowed time here.** As the Bank noted, there is "little need for the March 2011 'insurance' cut to remain in place much longer". **Get ready for rising interest rates. But we must be careful not to extrapolate this into an extended cycle.** As the Bank also noted, if NZD strength "persists", it will reduce the need for hikes later on. **In our view, this is strongly suggestive of a flatter yield curve.** Not only will lower global rates keep longer end yields down, but if the US and European difficulties see the NZD remain elevated, this will keep the RBNZ at bay too, creating something of a double-whammy effect.

If you thought last week was volatile, get set for more of the same this week, with event risk at front and centre. **First up is tomorrow's RBA meeting. Our Australian colleagues expect a hike** – which the market is not pricing in. If we do see a hike, it will exert upward pressure on NZ short end interest rates.

News on the US debt ceiling could come at any time if it is resolved by agreement. This could see bond yields shoot higher initially on optimism that the government will avert a shutdown. But **when the realities of fiscal discipline set in, less borrowing, more saving, and less Fed action should keep bond yields in check.** Things are no better in Europe. While core market yields fall, peripheral yields keep rising as the market distinguishes between the solvent and the insolvent. **This is providing support for NZ bonds.**

PREFERRED BORROWING STRATEGIES

Although the RBNZ has good grounds for taking back the "insurance" rate cut it delivered in March in fairly short order (read: a 50bp hike in September), this should not be confused with an elongated interest rate cycle. Indeed, as the RBNZ made clear in last week's *OCR Review*, future OCR hikes will depend on the strength of the NZD and the global outlook. At the moment, both factors are suggestive of a more muted cycle, with an OCR endpoint well south of 5 percent. As such, it is not clear to us that fixing will prove to be more economic in the long run. For example, market pricing shows that you'd need to see the 3mth BKBM rate rise from its current level of 2.92% to 3.78% and then on to 4.47% in one and two years respectively in order for fixing for 2 years to be cheaper. When you consider that the current BKBM rate is already up at least 25bps in anticipation of a September hike, you really need to expect fairly stern hikes to make fixing worthwhile. Such hikes may eventuate, but are at the upper end of our expectations. That said, if certainty is required, the premium to fix for 1-2 years is not large. But with 5yr+ rates pricing BKBM back towards 6%, we see little value in longer term fixing.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↑	50bp hike likely in September.
NZ data	↑	Jobs data this week crucial.
Fed Funds / front end	↓	Fiscal austerity will sideline the Fed. GDP revisions poor.
RBA	↑	We expect a hike tomorrow.
US 10 year	↔/↓	Yields likely to remain well bid.
NZ swap curve	↔/↓	More flattening likely, but move may exhaust this week.
Flow	↑	Mortgage paying potential.
Technicals	↔/↑	2yr capped at 3.80% for now.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 15-Sep-11	+15	+34
Thu 27-Oct-11	+28	+42
Thu 8-Dec-11	+52	+53
Thu 26-Jan-12	+62	+64
Thu 8-Mar-12	+78	+77
Thu 26-Apr-12	+86	+91
Thu 14-Jun-12	Not forecast	+102

TRADING THEMES WE FAVOUR AT PRESENT

In outright terms we remain bearish the short end and bullish the back end, which is clearly suggestive of more curve flattening. Event risk is heightened, with the RBA meeting tomorrow and US debt ceiling negotiations ongoing. Broadly speaking, we prefer to remain short the front end until we see about 40bps priced in for September, which seems fair given divergent local/global risks. We see no reason why US bond yields will sustain meaningfully higher levels (although they may rise temporarily on relief of a debt extension or downgrade), but would lighten up on our preferred 2s10s swap flattener at around +135bps, which we could be at within days.

CURRENCY STRATEGY

SUMMARY

This week is all about the US debt situation. We expect the debt ceiling to be raised, averting an immediate default but only expect a short term knee-jerk reaction favouring the USD. A US downgrade seems likely now despite any resolution. Last week's RBNZ message was unequivocal as to where to from here, with a 50bp hike in September almost a done deal. The NZD made its expected feature in the statement but current direction is more about USD weakness and a lack of natural sellers. Further post float highs for NZD is likely, but a surprise RBA hike, which our Australian economists are picking, will provide some relief on the cross.

MARKET THEMES

- US deficit and debt ceiling negotiations keep markets on edge as proposals will be measured against rating agencies' yardsticks.
- USD weakness continues to be the main theme driving currencies, with local factors playing second fiddle.
- NZ employment data this week the focus for NZD. RBA decision tomorrow key for AUD.

REVIEW AND OUTLOOK

Despite RBNZ comments about the high NZD, the key driver remains the US debt issues. The RBNZ was short, sharp and to the point in its press release that accompanied the OCR decision. We can expect the March 50bp insurance cut to be removed in full in September. As expected the Governor commented on the very high level of the NZD recognising its restrictive effect on the NZ economy. With the currency doing a lot of monetary "heavy lifting", interest rate moves will likely play a lesser role in the near term.

The US debt situation remains unresolved as we write. While the markets are reasonably confident the debt ceiling will be raised, the size of the ongoing problem suggests a downgrade of the US by the rating agencies has a high probability. Upon a favourable announcement we expect a relief rally in the USD but this will likely be short-lived as the scale of the ongoing problem refocuses the markets. Also, Friday's US GDP data was a shocker with 2nd quarter underperforming market expectations but the 1st quarter being revised down from 1.9% to 0.4% annualised. In essence there is no good news for the USD at the moment.

The AUD is also benefiting from the weak USD, reaching a new post float high last week (along with the NZD, gold and Swiss franc). We are

expecting the RBA to raise interest rates tomorrow and with a weak USD trumping all else, the potential for a higher AUD during the week must be considered high. **The European sovereign debt crisis remains but is being usurped by the US concerns this week.** In essence nothing has really changed in Europe.

In summary, the NZD remains the darling of the currency markets, continuing to outperform on most fronts. Further post float highs beckon, but an RBA hike should see it underperform AUD.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↑	Close to our fair value estimates.
Yield	↔/↑	Yield convergence favouring AUD less.
Commodities	↑	Wary of cracks appearing here
Partial indicators	↔/↑	NZ Q1 GDP strong. Q2 HLFS key focus now.
Technicals	↔	Resistance at 0.8020
Sentiment	↔	Risk off.
Other	↔	OCR, AU CPI but external factors to provide direction.
On balance	↔/↑	Further consolidation required.
NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↑	RBNZ sets a date (Sept).
Commodities	↔	Starting to be wary of turns in key NZ related commodities.
Risk aversion	↔	Mixed signals.
Partial indicators	↑	NZ data better, US data worsening.
Technicals	↑	Trend is your friend.
AUD	↔	AUD at resistance.
Sentiment	↔	Underlying positive. However cracks appearing.
Other	↔	USD weakness the key driver for NZD this week.
On balance	↔	Cracks may not be wide enough to open a chasm for the NZD to fall into.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
1-Aug	AU	AiG Performance of Mfg Index - JUL	- -	52.9	11:30
	AU	TD Securities Inflation MoM% - JUL	- -	0.0%	12:30
	AU	TD Securities Inflation YoY% - JUL	- -	2.9%	12:30
	NZ	ANZ Commodity Price - JUL	- -	-1.2%	13:00
	CH	PMI Manufacturing - JUL	50.2	50.9	13:00
	AU	HIA New Home Sales (MoM) - JUN	- -	-0.2%	13:00
	CH	HSBC Manufacturing PMI - JUL	- -	50.1	14:30
	EC	PMI Manufacturing - JUL F	50.4	50.4	20:00
	UK	PMI Manufacturing - JUL	51.0	51.3	20:30
	EC	Euro-Zone Unemployment Rate - JUN	9.9%	9.9%	21:00
	UK	Halifax House Prices sa (MoM) - JUL	0.0%	1.2%	UNCONFIRMED
	UK	Halifax House Price 3Mths/Year - JUL	-2.8%	-3.5%	UNCONFIRMED
2-Aug	US	Construction Spending MoM - JUN	0.1%	-0.6%	02:00
	US	ISM Manufacturing - JUL	54.5	55.3	02:00
	US	ISM Prices Paid - JUL	64	68	02:00
	NZ	Average Hourly Earnings QoQ - 2Q	0.8%	0.3%	10:45
	NZ	Private Wages Exc Overtime QoQ - 2Q	0.5%	0.4%	10:45
	NZ	Private Wages Inc Overtime QoQ - 2Q	0.5%	0.4%	10:45
	JN	Monetary Base (YoY) - JUL	- -	17.0%	11:50
	AU	House Price Index QoQ - 2Q	-1.0%	-1.7%	13:30
	AU	House Price Index YoY - 2Q	-3.0%	-0.2%	13:30
	JN	Labor Cash Earnings YoY - JUN	0.4%	1.0%	13:30
	AU	Building Approvals (MoM) - JUN	3.0%	-7.9%	13:30
	AU	Building Approvals (YoY) - JUN	-10.3%	-14.4%	13:30
	AU	RBA CASH TARGET - AUG	4.75%	4.75%	16:30
	AU	RBA Commodity Index SDR YoY% - JUL	- -	28.2%	18:30
	UK	PMI Construction - JUL	53.1	53.6	20:30
	EC	Euro-Zone PPI (MoM) - JUN	0.1%	-0.2%	21:00
	EC	Euro-Zone PPI (YoY) - JUN	5.9%	6.2%	21:00
3-Aug	US	Personal Income - JUN	0.2%	0.3%	00:30
	US	Personal Spending - JUN	0.1%	0.0%	00:30
	US	PCE Deflator (YoY) - JUN	2.6%	2.5%	00:30
	US	PCE Core (MoM) - JUN	0.2%	0.3%	00:30
	US	PCE Core (YoY) - JUN	1.4%	1.2%	00:30
	US	Total Vehicle Sales - JUL	11.80M	11.41M	09:00
	US	Domestic Vehicle Sales - JUL	9.30M	8.95M	09:00
	UK	BRC Shop Price Index YoY - JUL	- -	2.9%	11:01
	AU	AiG Performance of Service Index - JUL	- -	48.5	11:30
	CH	China Non-manufacturing PMI	- -	57	13:00
	AU	Trade Balance - JUN	A\$2.2B	A\$2.3B	13:30
	AU	Retail Sales s.a. (MoM) - JUN	0.4%	-0.6%	13:30
	AU	Retail Sales Ex Inflation(QoQ) - 2Q	0.4%	0.0%	13:30
	CH	China HSBC Services PMI - JUL	- -	54.1	14:30
	AU	Foreign Reserves - JUL	- -	A\$41.1B	18:30
	GE	PMI Services - JUL F	52.9	52.9	19:55
	EC	PMI Composite - JUL F	50.8	50.8	20:00
	EC	PMI Services - JUL F	51.4	51.4	20:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
3-Aug	UK	PMI Services - JUL	53.2	53.9	20:30
	UK	Official Reserves (Changes) - JUL	- -	-£148M	20:30
	EC	Euro-Zone Retail Sales (MoM) - JUN	0.5%	-1.3%	21:00
	EC	Euro-Zone Retail Sales (YoY) - JUN	-1.0%	-2.3%	21:00
	US	Challenger Job Cuts YoY - JUL	- -	5.3%	23:30
4-Aug	US	ADP Employment Change - JUL	100K	157K	00:15
	US	ISM Non-Manf. Composite - JUL	53.7	53.3	02:00
	US	Factory Orders - JUN	-0.8%	0.8%	02:00
	NZ	Unemployment Rate - 2Q	6.5%	6.6%	10:45
	NZ	Employment Change (QoQ) - 2Q	0.0%	1.4%	10:45
	NZ	Employment Change (YoY) - 2Q	2.0%	1.8%	10:45
	NZ	Participation Rate (QoQ) - 2Q	68.4%	68.7%	10:45
	GE	Factory Orders YoY (nsa) - JUN	6.7%	12.2%	22:00
	GE	Factory Orders MoM (sa) - JUN	-0.5%	1.8%	22:00
	UK	BOE Asset Purchase Target - AUG	£200B	£200B	23:00
	UK	BOE ANNOUNCES RATES - AUG	0.50%	0.50%	23:00
	EC	ECB Announces Interest Rates - AUG	1.50%	1.50%	23:45
5-Aug	US	Initial Jobless Claims - 30 JUL	405K	398K	00:30
	US	Continuing Claims - 23 JUL	3695K	3703K	00:30
	AU	AiG Perf of Construction Index - JUL	- -	35.8	11:30
	JN	Coincident Index CI - JUN P	108.7	106.3	17:00
	JN	Leading Index CI - JUN P	103.4	99.6	17:00
	UK	PPI Input NSA (MoM) - JUL	0.7%	0.4%	20:30
	UK	PPI Input NSA (YoY) - JUL	18.7%	17.0%	20:30
	UK	PPI Output n.s.a. (MoM) - JUL	0.2%	0.1%	20:30
	UK	PPI Output n.s.a. (YoY) - JUL	5.8%	5.7%	20:30
	UK	PPI Output Core NSA (MoM) - JUL	0.2%	0.2%	20:30
	UK	PPI Output Core NSA (YoY) - JUL	3.2%	3.2%	20:30
	GE	Industrial Prod. YoY (nsa wda) - JUN	8.1%	7.6%	22:00
	GE	Industrial Production MoM (sa) - JUN	0.1%	1.2%	22:00
	JN	BOJ Target Rate - AUG	- -	0.10%	UNCONFIRMED
6-Aug	US	Change in Nonfarm Payrolls - JUL	90K	18K	00:30
	US	Change in Private Payrolls - JUL	115K	57K	00:30
	US	Change in Manufact. Payrolls - JUL	10K	6K	00:30
	US	Unemployment Rate - JUL	9.2%	9.2%	00:30
	US	Avg Hourly Earning MOM All Emp - JUL	0.2%	0.0%	00:30
	US	Avg Hourly Earning YOY All Emp - JUL	1.9%	1.9%	00:30
	US	Avg Weekly Hours All Employees - JUL	34.3	34.3	00:30
	US	Chg in Household Survey Empl - JUL	- -	-445	00:30
	US	Consumer Credit - JUN	\$5.0B	\$5.08B	07:00

Key: AU: Australia, EC: Euro-zone, 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 RBNZ left the OCR unchanged at 2.5 percent but also made it clear the OCR at this level is on borrowed time. Despite the global scene looking more uncertain and the NZD flirting with post-float highs, business sentiment suggests the domestic outlook remains positive. Data this week should confirm a tightening in the labour market is underway, which should bolster the case for the 50 basis point tightening in the September MPS. Global ructions and the strong NZD suggest a more gradual path of policy tightening and a lower OCR endpoint thereafter.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 1 Aug (1:00pm)	ANZ Commodity Price Index	- -	- -
Tue 2 Aug (10:45)	Labour Cost Index – Q2	Growing	We expect private sector salary and wage rates to rise 0.5 percent (2.1 percent y/y).
Tue 2 Aug (10:45)	Quarterly Employment Survey – Q2	Tightening	Private sector hourly earnings should rise 0.7 percent (2.6 percent y/y). Filled jobs and paid hours should rise 0.6 percent.
Wed 3 Aug (6:00am)	<i>GlobalDairyTrade</i> dairy auction	Down	We expect a 2 percent fall in whole milk powder prices to around US \$3,400/tonne. Other components should show offsetting movements.
Thur 4 Aug (10:45)	Household labour Force Survey – Q2	Firming	A 0.3 percent increase in employment is expected, with the unemployment rate to fall to around 6.4 percent.
Tue 9 Aug (10:45)	Electronic Card Transactions - July	Up	Firming incomes will underpin a 0.5 percent increase in retail ECT spending.
Thur 11 Aug (10:00am)	REINZ Report - Jul	Improving	A 2 to 3 percent lift in sales is forecast. Prices to be underpinned by low listings.
Thur 11 Aug (10:30pm)	BNZ Business NZ Manufacturing PMI	Holding	A reading in the low 50's is anticipated. More concerns over the NZD are likely to be evident.
Thur 11 Aug (1:00pm)	ANZ Roy Morgan Consumer Confidence	- -	- -
Tue 16 Aug (10:45am)	Producer Price & Capital Goods Price Indexes – Q2	Margins squeeze	We expect a 1.2 percent increase in input prices, with output prices rising 0.8 percent. Capital goods prices should rise 0.2 percent, with offsetting movements.
Wed 17 Aug (6:00am)	<i>GlobalDairyTrade</i> dairy auction	Stabilising	We expect overall dairy prices to stabilise.
Fri 19 Aug (10:45am)	International Travel and Migration - July	Down	A net PLT outflow of 300 persons is expected. Volcanic ash disruptions should contribute to a further fall in visitor arrivals.
Fri 19 Aug (3:00pm)	RBNZ Credit Card billings - July	Moving higher	We expect a 0.5 percent increase in billings.
Tue 23 Aug (3:00pm)	RBNZ Survey of Expectations – Q3	High	The critical 2-year-ahead CPI inflation measure should remain around 3 percent, considerably above the midpoint of the band.
Wed 24 Aug (10:45am)	Overseas Merchandise Trade – July	Into the red	We expect a trade deficit of around \$170m for July, with the annual surplus to remain around \$1bn.
Thur 25 Aug (10:45am)	Food Price Index - July	Up	A 0.7 percent increase is expected. Announced cuts to dairy prices should impact from next month.
Thur 25 Aug (10:45am)	Retail Trade Survey– Q2	Resilience	We expect a 1.7 percent increase in Q2 nominal retail sales, with core spending up 2.2 percent. Retail and core retail volumes are expected to rise 0.8 percent and 1.5 percent respectively.
On Balance		On the up	Soft leading gauges and less uncertainty over the future of Christchurch point towards a better Q2 and beyond.

KEY FORECASTS AND RATES

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
GDP (% qoq)	0.5	0.8	0.7	1.5	1.8	0.7	0.9	0.9	0.8	0.7
GDP (% yoy)	1.1	1.4	1.9	3.5	4.9	4.8	5.0	4.4	3.3	3.3
CPI (% qoq)	2.3	0.8	1.0	0.8	0.7	0.6	0.8	0.7	0.6	0.8
CPI (% yoy)	4.0	4.5	5.3	5.0	3.3	3.1	2.9	2.7	2.6	2.9
Employment (% qoq)	-0.4	1.4	0.3	0.4	0.6	0.7	0.5	0.5	0.4	0.4
Employment (% yoy)	1.3	1.8	2.3	1.6	2.7	2.0	2.2	2.3	2.1	1.8
Unemployment Rate (% sa)	6.7	6.6	6.4	5.9	5.8	5.4	5.3	5.2	5.1	5.1
Current Account (% GDP)	-4.1	-4.2	-4.2	-4.2	-3.6	-3.9	-4.2	-4.6	-4.9	-5.0
Terms of Trade (% qoq)	0.8	0.9	1.5	3.0	1.0	-0.7	-0.8	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	12.3	6.8	6.3	6.3	6.4	4.7	2.3	-1.4	-3.2	-3.2

	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11
Retail ECT (% mom)	0.9	1.0	-0.8	2.4	-0.2	1.4	1.4	-0.7	1.2	..
Retail ECT (% yoy)	4.8	6.3	4.4	5.7	6.2	6.6	10.0	6.8	9.0	..
Credit Card Billings (% mom)	0.7	0.1	-1.7	3.9	-0.5	-1.2	1.8	0.4	0.4	..
Credit Card Billings (% yoy)	5.1	4.3	2.4	6.2	5.9	2.1	6.6	5.5	4.5	..
Car registrations (% mom)	-3.9	13.0	-8.5	0.9	-1.7	-0.2	-5.6	3.3	-2.3	..
Car registrations (% yoy)	9.4	23.5	6.4	6.8	2.8	-1.0	-10.5	-3.7	-9.5	..
Building consents (% mom)	-1.5	8.3	-18.5	9.2	-9.7	2.5	-1.2	2.3	-1.4	..
Building consents (% yoy)	-17.4	-8.9	-26.4	-14.9	-28.8	-26.1	-32.1	-21.9	-25.7	..
REINZ House Price Index (% yoy)	-3.5	-1.9	-1.6	-2.6	-0.7	-1.8	-0.4	-0.7	0.0	..
Household Lending Growth (% mom)	0.0	0.0	0.1	0.1	0.1	-0.1	0.2	0.1	0.1	..
Household Lending Growth (% yoy)	2.0	1.8	1.6	1.5	1.5	1.2	1.2	1.2	1.1	..
ANZ Roy Morgan Consumer Confidence	113.6	114.5	112.2	117.1	108.1	101.4	101.4	103.3	112.5	109.4
NBNZ Business Confidence	23.7	33.2	29.5	..	34.5	-8.7	14.2	38.3	46.5	47.6
NBNZ Own Activity Outlook	30.5	35.3	34.5	..	36.6	14.7	29.5	39.7	38.7	43.7
Trade Balance (\$m)	-220	-177	-218	9	184	583	1149	551	230	..
Trade Balance (\$m ann)	1259	1363	1172	909	765	741	1230	1012	1021	..
ANZ World Commodity Price Index (% mom)	3.0	2.1	1.6	4.3	2.7	4.7	1.6	0.4	-1.2	..
ANZ World Commodity Price Index (% yoy)	23.1	13.1	12.1	16.3	20.3	23.5	19.8	19.6	20.6	..
Net migration (sa)	420	580	700	410	430	-540	-140	-340	-340	..
Net migration (annual)	12610	11519	10451	8689	8249	6554	5508	4625	3867	..

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	May-11	Jun-11	Today	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
NZD/USD	0.824	0.829	0.880	0.88	0.91	0.92	0.93	0.93	0.93	0.92
NZD/AUD	0.772	0.773	0.799	0.80	0.81	0.82	0.83	0.82	0.82	0.82
NZD/EUR	0.572	0.572	0.613	0.60	0.61	0.61	0.61	0.60	0.60	0.60
NZD/JPY	67.16	66.80	68.01	66.0	68.3	69.0	67.0	67.0	67.0	68.1
NZD/GBP	0.501	0.517	0.537	0.53	0.55	0.54	0.55	0.53	0.53	0.53
NZ\$ TWI	70.9	71.2	74.9	74.1	75.9	76.3	76.7	75.8	75.8	75.7
INTEREST RATES	May-11	Jun-11	Today	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
NZ OCR	2.50	2.50	2.50	3.00	3.25	3.50	3.75	4.00	4.25	4.50
NZ 90 day bill	2.69	2.67	2.92	3.20	3.50	3.90	4.00	4.40	4.50	4.90
NZ 10-yr bond	5.11	5.07	4.91	5.00	5.10	5.20	5.20	5.30	5.30	5.50
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75
US 3-mth	0.25	0.25	0.26	0.35	0.35	0.35	0.35	0.35	0.60	0.85
AU Cash Rate	4.75	4.75	4.75	5.00	5.00	5.00	5.00	5.25	5.50	5.50
AU 3-mth	5.02	5.03	5.07	5.30	5.30	5.30	5.40	5.50	5.70	5.70

	29 Jun	25 Jul	26 Jul	27 Jul	28 Jul	29 Jul
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.68	2.75	2.74	2.76	2.85	2.92
NZGB 04/13	3.19	3.41	3.39	3.40	3.47	3.40
NZGB 04/15	3.94	4.09	4.07	4.07	4.10	4.02
NZGB 03/19	4.80	4.91	4.89	4.88	4.85	4.76
NZGB 05/21	5.00	5.09	5.07	5.06	5.02	4.93
2 year swap	3.33	3.67	3.64	3.67	3.76	3.71
5 year swap	4.32	4.56	4.53	4.54	4.56	4.51
RBNZ TWI	70.3	74.1	74.1	74.2	74.3	73.9
NZD/USD	0.8119	0.8654	0.8688	0.8741	0.8724	0.8673
NZD/AUD	0.7704	0.7994	0.7966	0.7912	0.7901	0.7897
NZD/JPY	65.81	67.83	67.83	68.03	67.93	67.26
NZD/GBP	0.5075	0.5308	0.5319	0.5319	0.5342	0.5306
NZD/EUR	0.5653	0.6017	0.6003	0.6022	0.6074	0.6046
AUD/USD	1.0539	1.0825	1.0906	1.1048	1.1042	1.0983
EUR/USD	1.4362	1.4383	1.4472	1.4514	1.4364	1.4346
USD/JPY	81.06	78.38	78.07	77.83	77.87	77.55
GBP/USD	1.5999	1.6303	1.6334	1.6434	1.6330	1.6346
Oil (US\$/bbl)	92.90	98.97	98.97	99.61	97.40	97.48
Gold (US\$/oz)	1504.65	1614.15	1614.50	1622.71	1614.95	1614.20
Electricity (Haywards)	7.34	11.58	8.40	6.92	4.99	7.16
Baltic Dry Freight Index	1420	1317	1310	1296	1278	1264
Milk futures (USD)	162	155	155	155	155	155

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