

# NERVOUSNESS ABOUNDS

## CONTENTS

### Page 2: Economic overview

- We expect another volatile week as equities and subprime concerns dominate. Domestically, we expect this week's labour data to print strong, and reinforce the inflationary undercurrent and risks.

### Page 3: Economic comment – pipeline update

- Having now signalled the end of the tightening cycle, the challenge facing the Reserve Bank is to ensure the yield curve holds up in order to deliver the pipeline tightening needed to slow domestic demand.

### Page 5: Economic comment – the next leg?

- Increases in mortgage repayments over coming months look set to gradually moderate consumer spending. But the next leg of the consumer spending cycle could be driven by higher petrol prices if the NZD continues on its current downward path.

### Page 6: Interest rate strategy

- Robust labour market data to keep bias for rates up, but global developments this week to dictate. We favour curve steepeners ahead of the RBA and NZ employment report later in the week.

### Page 7: Currency strategy

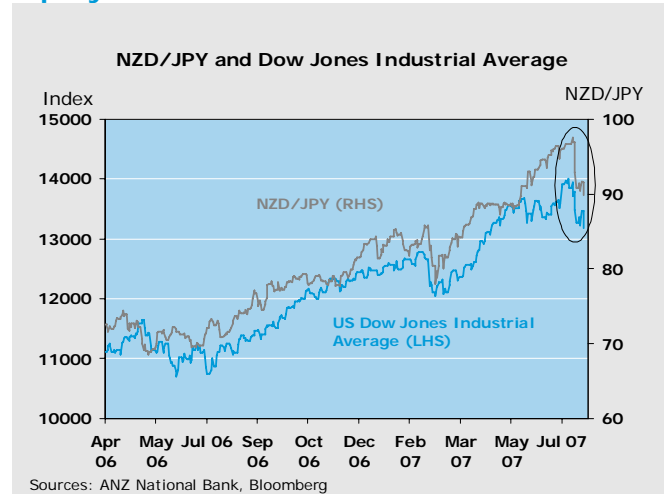
- A volatile week for the NZD as markets assessed developments in the US and took risk off the table. Equity market movements rather than interest rates hold the key in the near term.

### Page 8: Data timetable

### Page 10: Data watch

### Page 11: Key forecasts

## Carry trades marching to the beat of equity markets.



## Wage growth expected to remain elevated for some time.



## ECONOMIC OVERVIEW

**We expect another volatile week as equities and subprime concerns dominate. Domestically, we expect this week's labour data to print strong, and reinforce the inflationary undercurrent and risks.**

### What's ahead...

- NZ June quarter LCI and QES (Monday 1045 NZST). Wage inflation is expected to print strongly in the quarter, as firms continue to report difficulty in finding staff. Changes to the statutory minimum wage rates should also contribute.
- ANZ Commodity Price Index for July (Tuesday 1500 NZST).
- NZ Household Labour Force Survey (Thursday 1045 NZST). We are expecting modest employment growth after the surge last quarter. The unemployment and participation rates are expected to remain unchanged.

### What's the view

This week began as last week ended – nervously! Concerns over the fallout from the subprime mortgage crisis in the US and whether or not it would result in a more wide-ranging credit event dominated market trading. Global equity markets tumbled, carry trade positions were unwound, and funds flowed out of riskier assets and into the safety of bonds. Some recovery has ensued as risk appetites slowly returned, but markets are yet to really settle down and trading across equities, bonds, currencies and even commodities remains volatile.

The reason for the increased volatility is that markets, or anyone for that matter, just do not know how systemic the fallout from the subprime crisis will be. Question-marks continue to surround whether the change in risk appetites is merely a consequence of a turn in the credit cycle, or indicative of something more ominous. There are growing nuances of firms outside the US now starting to feel the impact and more information comes to light every day of new hedge funds feeling the strain, a sign that the contagion is spreading. Swap spreads, as well as corporate bond spreads, have increased as markets reprice risk – a key point of difference from the market correction that occurred in February this year after a sell-off in Chinese equity markets.

Given the strong global economic environment, and ample liquidity, we are biased towards any contagion remaining well contained. Swap and credit spreads have certainly widened, but they are by no-means extreme or at levels consistent with a pending "event". The level of risk aversion just looked too low for too long and some form of correction was always going to be on the cards. Central bankers and policy makers had certainly been forewarning of a potential adjustment for

some time. But we expect another volatile week as equities and subprime concerns dominate as economic, credit, and risk forces inter-twine.

Turning to the event calendar this week, we expect domestic labour market data to confirm strong late cycle support to the economy and inflationary risks. Sure, the Reserve Bank is likely to view labour market information as somewhat of a lagging indicator. However, with a lack of inflation headroom, the Reserve Bank will continue to see the labour market as a continuing source of inflationary pressure. In addition, strong labour income growth will continue to provide support to the housing market and consumer spending. A turn in the labour market remains the missing link broadening the slow-down from the business sector to households.

After hiking rates four times this year, the Reserve Bank is now purely in data-watch mode and looking for evidence that any slowdown will be sustained. Last week's data showed few signs of stress. Business confidence is low, but not at perilous levels. Consents and credit growth were solid.

Certainly there is a massive pipeline of tightening to come (refer page 3), but the Reserve Bank will also be looking for more concrete signs in the near-term. The July REINZ report (due around the 13 August) is likely to be important in this regard. Given the change to a more neutral stance in the July *OCR Review*, the threshold for a further hike is likely to be very high. In this regard, we feel the labour market data will need to print incredibly strong to force the Bank to contemplate lifting interest rates again, particularly given the heightened sensitivity that is likely to surround the upcoming monetary policy inquiry.

Looking across the Tasman, the main focus will be the RBA decision, with the market erring towards a hike, given the up-tick in June quarter inflation figures and strong growth. The potential spanners are the pending election, and global uncertainty. It looks to be a line call.

Given the backdrop of global unease, uncertainty with regard to the RBA, and some important domestic data as well, it is shaping up as another volatile week.

### Recent data...

- **NZ Building Consents Issued (Jun).** Residential dwelling consents surged 15.8 percent in the month, while ex-apartment consents grew a more modest 1.4 percent.
- **NZ Credit Growth (Jun).** Total household borrowing grew by 1.1 percent, taking annual growth to 13.8 percent.
- **NBNZ Business Outlook (Jul).** Headline business confidence fell slightly to -39 percent. Own activity indicators remain consistent with GDP growth of 1½ percent by year's end.

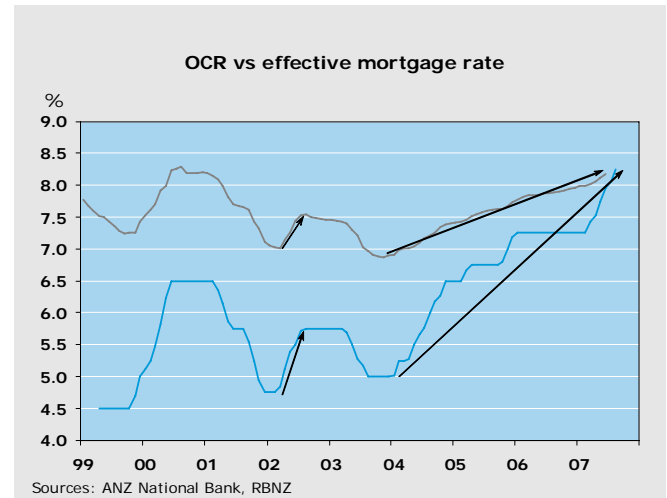
## PIPELINE UPDATE

**Having now signalled the end of the tightening cycle, the challenge facing the Reserve Bank is to ensure the yield curve holds up in order to deliver the pipeline tightening needed to slow domestic demand.**

Most New Zealand mortgages are for a fixed term duration. As at June 2007, almost 86 percent of the total mortgages outstanding is fixed, with the average duration of all outstanding mortgages at 20 months. The rise in the popularity of fixed rate mortgages occurred from around 2003 when the gap between floating and fixed mortgage rates widened courtesy of low global interest rates and compounded by aggressive pricing by retail banks. Since the end of 2004, fixed rates consistently remained below 100-150bps below floating rates, and for a brief period in early 2006, was as much as 200bps below floating.

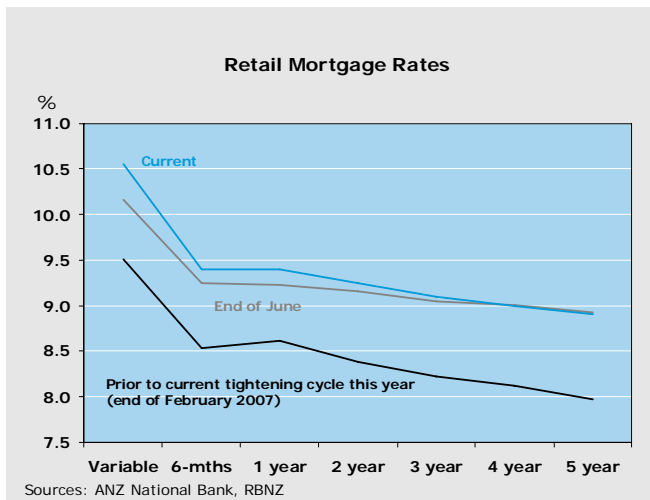
Hence, the response by households to move into fixed rate mortgages was an entirely rational one. While this provided a degree of certainty for households (not to mention considerable savings over floating rates), it acted to mute and delay the impact of monetary policy throughout the current tightening cycle. A 25bp increase in the OCR by the RBNZ would only deliver an immediate 3bp increase in the borrowing costs of New Zealand households (through those on floating). Of course, this is not to say that households will be totally insulated from OCR increases. The impact will be felt when their mortgages eventually come up for refinancing.

cycle. Since early 2004, the OCR has been increased by 325bps. Over that time, the effective mortgage rate faced by households has only increased by around 130bps.

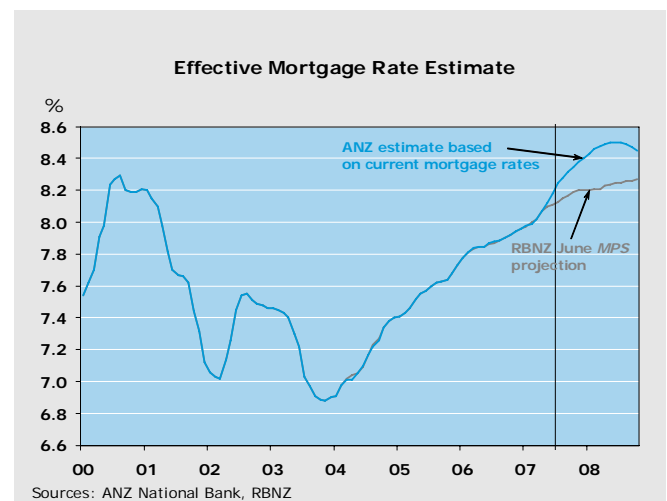


The latest OCR increase has seen banks increase their floating OCR rates by 25bps to 10.55 percent, with only small increases in fixed rates. Despite this, there is still a considerable amount of pipeline tightening to come over the months ahead at current mortgage interest rate levels. Some 28 percent of total fixed rate mortgages are rolling off over the coming 12 months, at a weighted average rate of 7.9 percent. Our own internal data show that most people are fixing in the 2-3 year space at an average of 9 percent, which means they face on average a 110bps increase.

By our estimate, the effective mortgage rate should increase from the current 8.18 percent to peak at 8.5 percent by mid-2008 (assuming no further OCR increases), taking it to the highest rate since late 1998. The tightening currently in the pipeline is larger than what the RBNZ was projecting in their June *Monetary Policy Statement*.



To estimate the amount of tightening still in the pipeline as mortgages roll off over coming months, the RBNZ calculates an effective mortgage rate series, which is the average weighted rate being paid on all outstanding mortgage debt. The RBNZ's projection of the effective mortgage rate is also contained in their *Monetary Policy Statements*. The lengthening in the transmission channel from monetary policy to households can be seen from the increases in the effective mortgage rate compared to the OCR over the current tightening



The steep rise in the effective mortgage rate expected over the rest of this year will ultimately bite at some stage, helping to moderate consumer spending. The RBNZ obviously felt comfortable

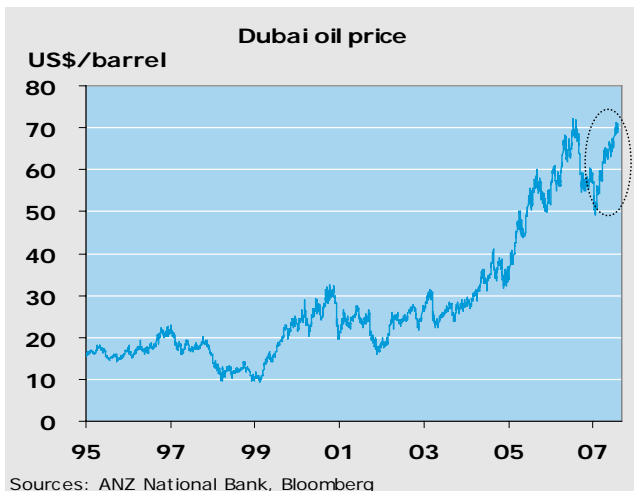
enough to signal an end to the tightening cycle with a currency close to record highs (then), anecdotes of household borrowing starting to moderate (which we, as a bank, can attest to) and confidence that the rise in the effective mortgage rate will start to impact. Certainly, we believe mortgage rates at current levels will start to slow household borrowing, consumer spending and the housing market over the remainder of this year.

The challenge for the RBNZ at this juncture is to ensure that financial conditions remain restrictive enough to ensure domestic demand continues to moderate. Financial markets reacted to the RBNZ's dovish statement by sending the New Zealand dollar and swap yields lower. The further decline in the New Zealand dollar after the OCR decision courtesy of credit concerns in the US which saw the carry trade unwind has seen financial conditions actually ease. Over coming months, the focus for the RBNZ is to keep the yield curve up and prevent the market from pricing in easings prematurely. Certainly, they will be mindful of the early 2006 experience, when swap yields fell in anticipation of OCR cuts, resulting in a fall in mortgage interest rates. However, in contrast to early 2006 the upcoming dataflow is not expected to collapse so markedly. Importantly, this should see the RBNZ maintain policy traction along the yield curve – fostering an eventual moderation in growth that they seek.

## THE NEXT LEG?

**Increases in mortgage repayments over coming months look set to gradually moderate consumer spending. But the next leg of the consumer spending cycle could be driven by higher petrol prices if the NZD continues on its current downward path.**

Oil prices are at, or close to, record highs again. The price of Dubai crude oil, which is the most relevant for NZ, is close to US\$70/bbl. Continued strong growth in the global economy, limited supply increases due to OPEC holding to current production quotas, and ongoing disruptions to Nigerian oil production have all added upward pressure on oil prices.



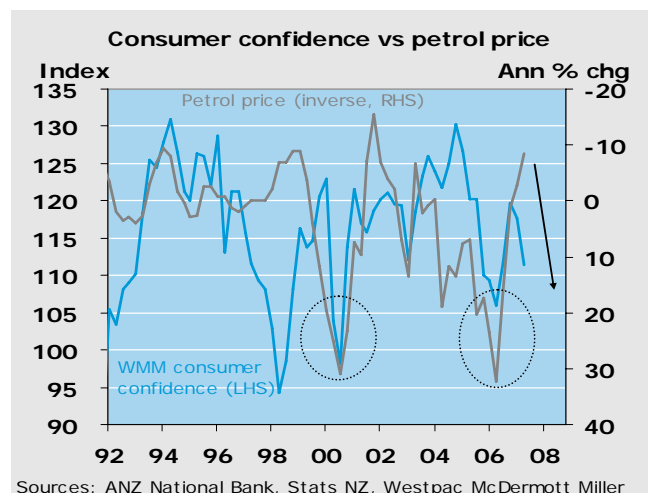
The NZD, while it was rising, helped insulate motorists from the higher world oil prices. But with the NZD/USD now at around 0.76, and trading with a downward bias, increases in the pump price are inevitable. Our ready-reckoner table below shows what the pump price for 91 unleaded would be under different NZD/USD and oil price scenarios. If Dubai crude stays at US\$70/bbl and the NZD/USD goes down to 0.75, petrol prices would increase to around \$1.58/litre (they are currently \$1.539/litre). If the NZD falls to 0.60, we are talking a jump to \$1.74 per litre. To put this in perspective, petrol prices surged to \$1.77 per litre in mid 2006.

		Dubai Crude Oil Price US\$/barrel						
		60	65	70	75	80	85	90
NZD/USD	0.85	142	146	150	154	158	162	167
	0.80	145	149	154	158	162	167	171
	0.75	148	153	158	162	167	172	177
	0.70	152	157	162	167	172	178	183
	0.65	157	162	168	173	179	184	190
	0.60	162	168	174	180	186	192	198
	0.55	169	175	182	188	195	201	207
	0.50	177	184	191	198	205	212	219
0.45	186	194	202	210	217	225	233	

Moreover, it is not just international oil prices that are high. Copper, tin, nickel, lead and the like have all tracked up. All are inputs into the production process.

For the economy, this carries a number of important considerations.

- Higher input costs such as oil are dampening the income boost being provided by higher commodity prices. It's still a net good news story (with NZ's soft commodity prices up 14 percent in the June quarter), but the terms of trade boost is nowhere near as stark as in Australia. Unlike Australia, New Zealand is a material net oil importer to the tune of 1½ percent of GDP. Each US\$10/bbl represents an income loss to the economy of around 0.3 percent of GDP on the assumption that demand does not change materially. (Note, the price elasticity of demand for petrol is relatively inelastic, being around -0.25. That is, price changes have only a small impact on the quantity of petrol purchased).
- A weaker currency carries both a first and second round effect. The first is growth negative (the petrol price and business margin effect), while the second and lagged response is positive. The benefit of the latter effect is frequently cited, while the "cost" in terms of input costs, margins, petrol, and our loss of wealth is overlooked.
- Higher petrol prices tend to have an immediate impact on confidence and consumer spending, most noticeably across discretionary and durables. Lower income households – who devote a far greater proportion of their income to petrol – are likely to face tougher times.
- Brace for some further inflationary unease and a potential push through the top of the inflation policy band if petrol prices head back up courtesy of a weaker NZD or even higher oil prices. The Reserve Bank will look through the first round impact on inflation from higher petrol prices if they do eventuate, as they have done in the past. However, given the lack of inflation headroom the Reserve Bank faces, they will be vigilant against any second round effects including any on inflation expectations or the price of other goods and services.



## INTEREST RATE STRATEGY

**Robust labour market data to keep bias for rates up, but global developments this week to dictate. We favour curve steepeners ahead of the RBA and NZ employment report later in the week.**

### Market themes...

- Credit concerns in the US leading to widening of swap spreads.
- Mortgage flows to influence direction in thin market.
- Fed, RBA and US credit market key focus for week.

### Outlook...

This week, offshore developments will determine where the local rates market heads. While this week's labour market data will provide some steer on the extent of resource pressure and wage inflation in the economy, the reality is that economic data will be taking a back seat to ongoing concerns over the US credit market.

Certainly, the local economic data this week will depict strong wage inflation and a tight labour market as still presenting upside risks to inflation, and therefore biasing the risk profile for rates up. But with the Reserve Bank signalling an end to the tightening cycle, the hurdle to a rate hike is very high. In any case, labour market data tend to be lagging indicators. Of more interest will be the REINZ housing market data for July, expected early next week, which we expect to show further signs of softening.

We expect the IRS curve to invert with mortgage flows dominating in thin markets. However, we see 10-year swap yields capped with the 2s10s curve holding at their -80bps support level. For bonds, we believe that they have found the level despite the rally in US and Australian markets (especially for the 10-year as this was after a 40bps rally last week). A combination of real money and domestic buying with little or no liquidity has left traders holding short positions. Credit concerns in the US have led to a massive widening in swap spreads. We expect any contraction in the spreads to be led by the IRS curve.

Given the volatility in global markets, the Fed and RBA interest rate decision will be closely watched. In particular, the FOMC statement will be keenly awaited for a steer on the Fed's view of recent developments and whether they will have a bearing on the Fed's outlook for the economy and interest rates. The Australian market is expecting a rate hike from the RBA this week, though our house view is that the RBA has time to wait until early next year.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔	RBNZ shifts to neutral bias, believing they have done enough to contain inflation.
NZ data	↔/↑	Labour market data to still print on strong side this week but housing data to show cracks.
Fed Funds/front end	↔	Credit market concerns dominating. Market fully pricing in end of year Fed cut.
RBA	↔/↑	Next move by RBA is up, but may not be this week though it is a close call.
US 10 year	↔/↓	Flight to safety flows due to credit concerns and risk reduction sends yields to lowest level since May.
NZ swap spreads	↔/↑	US credit concerns still major factor to see spreads wider.
Flow	↔	Global demand for Govt. bonds extends into the NZ market.
Technicals	↔/↓	The technical picture clouded by flight-to-safety flows dominating.

### Borrowing strategies we favour at present

A strong move towards risk aversion in global financial markets has seen New Zealand yields move lower over the past week, despite a rise in the OCR to 8.25 percent. This move allows clients with fixed rates maturing in 2008/09 to forward fix interest rates at attractive levels as the yield curve has steepened and inverted further. This dip in yields also presents clients who have floating debt to add cover at attractive levels as the saving between floating and the 2 - 5 year fixed rates has increased.

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

OCR dates	Last week	This week
Thu 13-Sep-07	15	16
Thu 25-Oct-07	15	16
Thu 6-Dec-07	15	16
Thu 24-Jan-08	15	16
Thu 6-Mar-08	-1	4
Thu 24-Apr-08	-1	4
Thu 5-Jun-08	-37	-36

### Trading themes we favour at present

Curve steepeners favoured ahead of RBA and NZ employment report later in the week. Pay 2-year EFP's vs receiving 10-year EFP. A hard trade to put on, but will dictate NZGB movements.

## CURRENCY STRATEGY

**A volatile week for the NZD as markets assessed developments in the US and took risk off the table. Equity market movements rather than interest rates hold the key in the near term.**

### Market themes...

- Risk being taken off the table, with all eyes looking for signs that subprime difficulties are spreading.
- Interest rate differentials taking a back seat, but should reassert when the dust settles.

### Outlook...

The past week has been dominated by nervousness and volatility following the sharp reassessment of risk appetites that we noted here last week. Data releases took a back seat, as market participants continued to take risk off the table. In the week ended 31 July, speculative long IMM positioning in the NZD halved (from NZ\$2.8b to NZ\$1.4b), and data due at the end of this week for the week to 7 August is expected to show further reductions in positions. With all eyes looking for clues about whether subprime difficulties were spreading or not, equity markets provided the main gauge of risk appetites, and as a result, the fortunes of the NZD were closely aligned with the yo-yo-like US equity markets through the week.

All of the volatility in the NZD left the local market tired, and with no local data to provide direction, the latter stages of the week saw some consolidation ahead of Friday night's US non-farm payrolls data. Weakness in this data, along with further credit concerns after S&P downgraded Bear Stearns' debt, dragged US stock markets, the US dollar, and interest rates lower, and ensured that the NZD started this week heavy.

With credit concerns dominating, offshore developments remain key to the future path for the NZD. Uncertainty about the extent of positioning and degree of leveraging across funds remains uncertain, and consequently, it is prudent to take a cautious outlook. Looking ahead, the key question is how entrenched will the current risk-reduction theme become. Further weakness in equities will continue to see investors continue to pull money out of riskier assets and this includes currencies. In such an environment, the NZD will remain under pressure as yield advantage takes a back seat.

Nevertheless, the NZD/USD now looks 'cheap' based on where swap differentials sit (+330bps), and when the dust settles and risk appetites return, NZD's yield attractiveness is likely to once again see buying support for the kiwi. The data calendar this week is expected to reinforce NZ's yield advantage, with labour market data to reinforce the

"RBNZ on hold for the foreseeable future" scenario, and providing a degree of support for the kiwi. Consequently, we see a week of consolidation, albeit with offshore developments providing a definite downside bias.

Technically, despite more volatility to come, the NZD/USD should consolidate within a broad 0.7550 to 0.7720 range. Resistance at the 200 day moving average (currently at 0.7804) will likely prove difficult to overcome in the short-term. Support at 0.7550 remains key. Major NZD/AUD support around the 200 day moving average at 0.8860 is being tested. If the RBA raises interest rates this week, we expect this level to provide resistance not support as 0.8700 gets targeted.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↔	Depends on the RBA.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Aussie ahead of us in the terms of trade cycle.
Technicals	↓	On support. 0.8860 a big level.
Sentiment	↓	Risk aversion on the rise.
Other	↔	Yield still attractive for both Uridashi and eurokiwi. But maturity profile steepening.
<b>On balance</b>	↓	<b>RBA vs NZ labour data.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↓	Some sectors booming, but most struggling.
Yield	↑	Yield differential widening on credit concerns.
Commodities	↔	Higher commodity prices remain supportive.
Risk aversion	↓	Subprime contagion hurting NZD.
Partial indicators	↓	Kiwi overvalued either way you look at it.
Technicals	↔	USD weakness story. NZD needs to break 0.7550/0.7720 range.
AUD	↑	Fundamentals solid across the Tasman.
Sentiment	↓	Position squaring occurring.
Other	↔	IMM long positioning greatly reduced.
<b>On balance</b>	↔/↓	<b>It's a USD story at the moment. NZD sidelined?</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
Aug 6	<b>NZ</b>	<b>LCI All Wages (2Q) – qoq</b>	<b>0.7%</b>	<b>0.6%</b>	<b>10:45</b>
		<b>LCI Private Sector (2Q) – qoq</b>	<b>0.7%</b>	<b>0.7%</b>	<b>10:45</b>
	AU	ANZ Job Advertisements (Jul) – mom	-	-0.8%	13:30
	JN	Leading Economic Index (Jun P)	80.0%	40.9%	17:00
		Coincident Index (Jun P)	77.8%	60.0%	17:00
	UK	Industrial Production (Jun) – mom	0.1%	0.6%	20:30
		Manufacturing Production (Jun) – mom	0.2%	0.4%	20:30
	GE	Factory Orders (Jun) – mom	-0.6%	3.2%	22:00
Aug 7	UK	NIESR GDP Estimate (Jul)	-	0.7%	11:01
	JN	Official Reserve Assets (Jul)	-	\$913.6B	11:50
	<b>NZ</b>	<b>ANZ Commodity Price Index (Jul)</b>	-	<b>6.1%</b>	<b>15:00</b>
	GE	Industrial Production (Jun) – mom	0.5%	1.9%	22:00
Aug 8	US	Non-Farm Productivity (2Q P)	2.0%	1.0%	00:30
		Unit Labour Costs (2Q P)	1.7%	1.8%	00:30
		Treasury's Paulson Speaks About the Global Economy in Montana	-	-	03:20
		FOMC Rate Decision Expected	5.25%	5.25%	06:15
		Consumer Credit (Jun)	\$5.0B	\$12.9B	07:00
	AU	RBA Interest Rate Target	6.50%	6.25%	11:30
		AIG Performance of Construction Index (Jul)	-	51.3	11:30
		House Price Index (2Q) – qoq	-	1.1%	13:30
		Home Loans (Jun)	2.0%	0.1%	13:30
		Investment Lending (Jun)	-	8.9%	13:30
		Foreign Reserves (Jul)	-	\$79.7B	18:30
	JN	Machine Orders (Jun) – mom	-1.1%	5.9%	11:50
		Money Supply M2+CD (Jul) - yoy	1.9%	1.8%	11:50
		Broad Liquidity (Jul) – yoy	3.6%	3.6%	11:50
		Bank Lending incl Trusts (Jul) – yoy	-	0.7%	11:50
		Eco Watchers Survey : Current (Jul)	45.5	46.0	17:00
		Eco Watchers Survey : Outlook (Jul)	-	48.4	17:00
		Machine Tool Orders (Jul P) – yoy	-	3.0%	18:00
	GE	Trade Balance (Jun)	17.8B	17.5B	18:00
		Current Account (Jun)	12.0B	9.6B	18:00
		Imports (Jun) – mom	2.9%	-3.6%	18:00
		Exports (Jun) – mom	1.5%	-0.9%	18:00
	UK	BoE's King Presents Inflation Report	-	-	21:30
Aug 9	US	Fed's Stern Speaks on Education Policy in Washington	-	-	02:00
		Wholesale Inventories (Jun)	0.4%	0.5%	02:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
Aug 9 cont.	NZ	<b>Unemployment Rate (2Q)</b>	<b>3.7%</b>	<b>3.8%</b>	<b>10:45</b>
		<b>Employment Change (2Q) – qoq</b>	<b>0.3%</b>	<b>1.2%</b>	<b>10:45</b>
	AU	Employment Change (Jul)	25.0k	2.5k	13:30
		Unemployment Rate (Jul)	4.4%	4.3%	13:30
		Participation Rate (Jul)	65.0%	64.9%	13:30
	EU	ECB Publishes Monthly Report	-	-	20:00
	UK	Visible Trade Balance (Jun)	-£6,500	-£6,291	20:30
		Total Trade Balance Non-EU (Jun)	-£3,650	-£3,481	20:30
		Total Total Trade Balance (Jun)	-£3,850	-£3,511	20:30
Aug 10	US	ICSC Chain Store Sales (Jul) – yoy	-	2.4	05:30
		Fed's Stern Speaks on Education Policy in Montana	-	-	06:00
	JN	Domestic CGPI (Jul) – mom	2.1%	0.1%	11:50
		Industrial Production (Jun F) – mom	1.2%	1.2%	16:30
		Capacity Utilisation (Jun F)	-	105.0	16:30
		Bankruptcies (Jul) – yoy	-	6.7%	16:30
		Consumer Confidence (Jul)	46.0	45.2	17:00
		Consumer Confidence Households (Jul)	46.0	45.0	17:00
	EU	OECD Leading Indicator (Jun)	-	107.6	22:00
Aug 11	US	Import Price Index (Jul) – mom	2.5%	1.0%	00:30
		Monthly Budget Statement (Jul)	-\$35.0B	-\$33.2B	06:00

Key: AU: Australia, CA: Canada, EU: European Union, GE: Germany, JP: 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:** Labour market data this week will illustrate that vigilance is still required by the RBNZ and will keep the bias for interest rates skewed to the upside. However, the Bank is likely to view the data as a lagging indicator. Their major focus will remain on evidence that the housing market and consumer spending is moderating. Therefore REINZ and retail sales data next week will be key.

Date	Data/Event	Economic Signal	Comment
Mon 6 Aug (10.45)	QES and LCI Surveys (Jun qtr)	Elevated	Wage inflation is expected to print strongly in the quarter as firms continue to report difficulty in finding staff. Changes to the statutory minimum wage rates should also contribute.
Tue 7 Aug (15.00)	ANZ Commodity Price Index (July)	-	-
Thu 9 Aug (10.45)	Household Labour Force Survey (Jun qtr)	Still tight overall	Employment is likely to have only grown by a modest amount in the quarter after a strong increase in March. The unemployment and participation rates are expected to remain largely unchanged.
circa 13 Aug	REINZ Housing Report (July)	Slowing	There have been signs of easing in the previous two monthly reports. Given that the higher mortgage rates are likely to fully manifest in July, we expect further signs of slowing in this release.
Tue 14 Aug (10.45)	Retail Trade Survey (June)	Still robust	Credit card statistics suggest that consumer spending remains robust. We expect a modest increase for the month.
Wed 15 Aug (10.45)	Producer Price Index (Jun qtr)	Some regaining of margins	The level of the NZD will have resulted in subdued input prices. We expect firms to take the opportunity to claw back some of their lost margins.
Wed 15 Aug (10.45)	Capital Goods Price Index (Jun qtr)	Mixed	The high NZD will have had a downward impact on plant and machinery prices, although construction prices will remain elevated.
Mon 20 Aug (10.45)	External Migration (July)	Easing	Migration inflows have slowed as the number of permanent and long-term departures has increased. This theme is expected to continue.
Tue 21 Aug (15.00)	Credit Card Billings (July)	Easing	Consumer spending is likely to have slowed given the increases in mortgage rates.
Fri 24 Aug (10.45)	Overseas Merchandise Trade (July)	Deficit	July historically records a trade deficit. This month will be no exception as the high NZD weighs on export volumes and timing issues delay the impact of higher dairy prices.
Thu 30 Aug (10.45)	Building Consents (July)	Pull-back	After a strong increase in June due to builders rushing to get applications in prior to fee increases, we expect a considerable pull-back this month.
Thu 30 Aug (15.00)	Credit Growth (July)	Robust	Total household claims have been growing around 1 percent since 2002. They rose 1.1 percent in June, although we expect this to have eased in July, albeit modestly.
Thu 30 Aug (15.00)	National Bank <i>Business Outlook</i> (Aug)	-	-
<b>On Balance</b>		<b>Slowing</b>	<b>Housing looks to be leading the way but when will the rest follow?</b>

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## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jun 07	Jul 07	6 Aug 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
NZD/USD	0.756	0.786	0.759	0.770	0.730	0.700	0.660	0.640	0.630	0.610
NZD/AUD	0.898	0.907	0.889	0.885	0.830	0.787	0.767	0.771	0.778	0.772
NZD/EUR	0.563	0.573	0.549	0.550	0.525	0.515	0.493	0.485	0.485	0.480
NZD/JPY	92.6	95.6	89.0	95.5	92.0	88.9	83.2	79.4	76.9	73.2
NZD/GBP	0.380	0.386	0.372	0.381	0.367	0.357	0.340	0.333	0.333	0.326
NZ\$ TWI	73.7	75.6	72.5	73.9	70.3	67.8	64.5	63.1	62.5	61.0
NZ interest rates	Jun 07	Jul 07	6 Aug 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
OCR	8.07	8.18	8.25	8.25	8.25	8.25	8.25	8.25	7.75	6.75
90 day bill	8.32	8.44	8.58	8.60	8.50	8.50	8.50	8.40	7.70	6.80
10 year bond	6.73	6.79	6.43	6.70	6.90	6.90	6.80	6.90	6.80	6.60
International	Jun 07	Jul 07	6 Aug 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
US Fed funds	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.75
US 3-mth	5.36	5.36	5.36	5.35	5.35	5.35	5.35	5.40	5.50	6.00
AU cash	6.25	6.25	6.25	6.25	6.25	6.50	6.75	6.75	6.75	6.75
AU 3-mth	6.44	6.62	6.60	6.40	6.40	6.70	6.90	6.90	6.90	6.90

## KEY RATES

	3 July	30 July	31 July	1 August	2 August	3 August
Official Cash Rate	8.00	8.25	8.25	8.25	8.25	8.25
30 day bank bill	8.25	8.45	8.45	8.46	8.46	8.46
90 day bank bill	8.37	8.55	8.55	8.56	8.57	8.58
NZGB 07/09	7.30	7.80	7.83	7.84	7.82	7.78
NZGB 11/11	7.09	7.33	7.33	7.25	7.20	7.17
NZGB 04/13	6.98	7.11	7.12	7.05	7.00	6.96
NZGB 12/17	6.65	6.64	6.63	6.52	6.46	6.41
1 year swap	8.43	8.61	8.63	8.61	8.61	8.63
2 year swap	8.32	8.43	8.44	8.41	8.42	8.44
5 year swap	8.00	8.04	8.05	8.00	8.02	8.04
RBNZ TWI	75.4	73.2	73.9	72.8	73.1	73.6
NZD/USD	0.7813	0.7619	0.7713	0.7581	0.7610	0.7674
NZD/AUD	0.9121	0.8969	0.8959	0.8927	0.8955	0.8952
NZD/JPY	95.61	90.32	91.77	89.72	90.07	91.49
NZD/GBP	0.3873	0.3767	0.3796	0.3741	0.3750	0.3770
NZD/EUR	0.5737	0.5590	0.5625	0.5551	0.5574	0.5599
AUD/USD	0.8566	0.8495	0.8609	0.8492	0.8498	0.8572
EUR/USD	1.3619	1.3630	1.3712	1.3656	1.3653	1.3706
USD/JPY	122.37	118.54	118.98	118.35	118.36	119.22
GBP/USD	2.0171	2.0228	2.0321	2.0265	2.0291	2.0358
Oil	71.41	77.03	76.82	78.20	76.49	76.84
Gold	654.80	661.80	666.15	663.30	664.75	665.85
Electricity Price Index	7.82	6.08	6.00	5.91	5.90	5.91

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