

NEW ZEALAND ECONOMICS MARKET FOCUS

18 April 2011

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TAKING A PATIENT APPROACH

ECONOMIC OVERVIEW

We are detecting a base of resilience within the economy. Interest rate sensitive sectors of the economy are picking up, although they remain at very low levels of activity. Subdued current inflation fits with a patient RBNZ, though the inflation outlook remains somewhat troubling and the RBNZ should be casting nervous glances at the housing market. Other data this week is expected to remain murky due to seismic events but we keenly await April consumer confidence data to see how much substance was behind the March fall but also to see how household inflation expectations are evolving.

INTEREST RATE STRATEGY

Interest rates continue to edge higher as the market contemplates an earlier start to the tightening cycle, exacerbated by positioning and the more upbeat tone of the Governor Bollard's speech last week. The swap yield curve has also steepened, with paying interest in the back end by those buying bonds more than offsetting yield rises at the short end. We think yields could move higher in the near-term as long positions get stopped out, but receivers will emerge if 2-year yields get towards 3.5 percent.

CURRENCY STRATEGY

Having briefly hit 0.80 late last week, the NZDUSD is seemingly on track to attempt a push higher. While previous resistance levels have been broken through with ease, the NZD might struggle to keep up the pace and we think a corrective move lower is now long overdue. We suspect there will be attempts to put on fresh short positions at current levels, with key support at 0.7850.

EFFECTIVE EXCHANGE RATE UPDATE

Our effective exchange rate (EER) measures take into account the world prices of our exports (e.g. commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations. Strengthening export commodity prices and a weaker NZD contributed to more enhancing trading conditions for all eight groups in March. Disparities in trading conditions remain, with trading conditions more enhancing than average for four groups but more restrictive than average for three groups. For individual exporters, however, competitiveness will depend on who you sell to as well as what you are selling.

ECONOMIC OVERVIEW

SUMMARY

We are detecting a base of resilience within the economy. Interest rate sensitive sectors of the economy are picking up, although they remain at very low levels of activity. Subdued current inflation fits with a patient RBNZ, though the inflation outlook remains somewhat troubling and the RBNZ should be casting nervous glances at the housing market. Other data this week is expected to remain murky due to seismic events but we keenly await April consumer confidence data to see how much substance was behind the March fall but also to see how household inflation expectations are evolving.

THIS WEEK'S EVENTS

- **globalDairyTrade online auction** (Wednesday, April 20, 6:00am). We expect further consolidation in whole milk powder prices, with a 3.3 percent fall to US \$3,750 per tonne.
- **SNZ International Travel and Migration – March** (Thursday, April 21, 10:45am). A lower net PLT monthly inflow of 200 persons is expected. Visitor arrivals are expected to ease by 2 percent.
- **ANZ Roy Morgan Consumer Confidence – April** (Thursday, April 21, 1:00pm).
- **RBNZ Credit Card Statistics – March (Thursday, April 21, 3:00pm)**. We expect a monthly increase of credit card billings of around 1 percent.

WHAT'S THE VIEW?

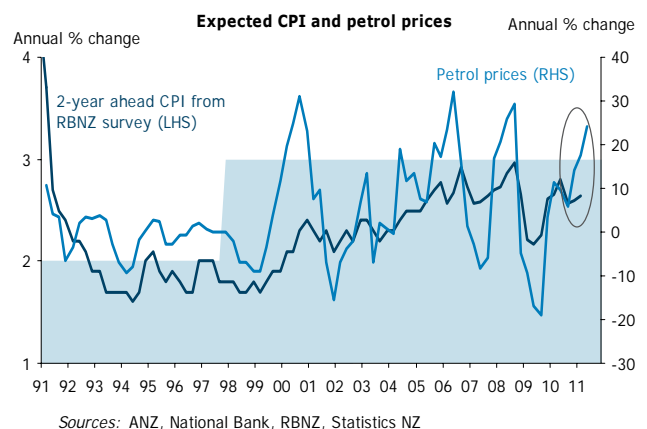
The RBNZ made a subtle shift in tone last week, with Governor Bollard noting in a speech last Tuesday a) that they expected a **higher terms of trade to be reflected in the currency** and b) that **monetary policy would counteract any rise in inflation expectations** and focus on the medium-term outlook as opposed to the terms of trade boost itself. Some took it as the green light for a higher currency (yes, the RBNZ now probably need one given inflation pressures from commodities) and downplayed the inflationary aspect. We find it hard to ignore the inflationary aspect. Of course references to inflation expectations are hardly anything new. It simply states the obvious and core component of every inflation targeting framework. Yet it was only four week ago the word inflation was not even mentioned in the RBNZ's Policy Assessment!

Suffice to say we think this itself signals a slight shift in tone which is likely to emerge in the April OCR Review. This is not to be confused

with expecting something radically hawkish. Rather, it seems prudent to expect the tone of assessments over the year to take small steps prepping the market for the inevitable hike. This may ultimately be a way off and subject to a fair degree of uncertainty but we fully expect such small changes in tone as each assessment so when the inevitable move does arrive it'll be so well signalled few will be surprised.

A continued relaxed or "prepping" view is subject to numerous caveats or watch factors. We'll comment on three for now.

- **Inflation.** The March quarter figures were weaker than market expectations but were close to the RBNZ's March MPS pick. **These readings allow the RBNZ to take a patient approach.** CPI excluding food, household energy, and fuel increased 0.1 percent. Despite a benign 0.3 percent increase in the weighted inflation from the weighted median, various trimmed measures were in a 0.7 to 0.9 percent range and annual core inflation looks to have ticked up from 1.6 to 1.8 percent. **The medium-term outlook is less benign.** As was noted in last week's Market Focus, our suspicion is that the March MPS inflation projections look too light. There are a wide number of potential upside inflation risks still apparent and higher inflation rates from the trimmed means are a reminder there is still a solid core of price pressure through the economy. The OCR will eventually move higher and we continue to expect the RBNZ to start removing the insurance cuts by the end of the year.

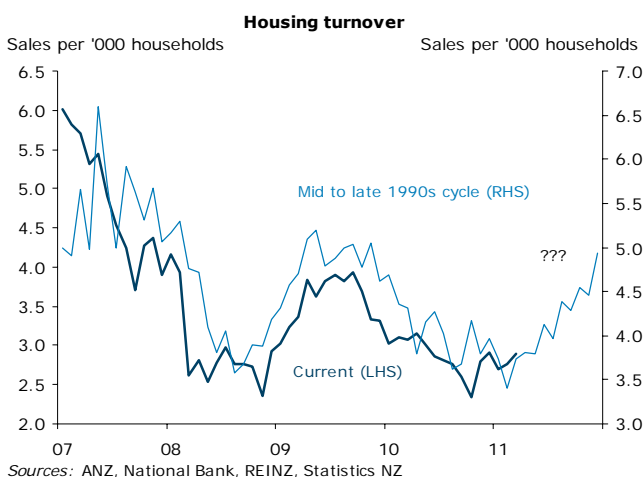


- **How inflation expectations evolve.** Our soon to be published work shows that frequently purchased items, mostly notably petrol, have an almost instantaneous and outsized impact on inflation expectations. This is why such rises are

ECONOMIC OVERVIEW

hard to ignore, even if they are one-offs. Inflation expectations are also inherently persistent and are hard to get down. If we start to see signs of cost increases starting to feed through into price and wage setting behaviour, expect the RBNZ to back their talk with action.

- **That old bug-bear namely the housing market.** "This time it's different" is possibly the most overused phrase amongst economists. De-leveraging and regulatory changes are strong pointers to the "this time is different view" and the housing market not getting up the historical huge head of steam. At present the level of housing activity is so low there seems only one way to go and that is up. Yet outside of Christchurch there are growing anecdotes of not just momentum but strength. Mortgage approvals are picking up. If housing turnover continues to strengthen, prices will eventually follow. Similarities with the mid 1990s cycle in housing turnover are eerie so watch this space. There is also an immediate inflation corollary: rents are picking up, with annual rental inflation reported by Housing New Zealand hitting 6 percent in March. March Barfoot and Thompson figures show a 6.5 percent annual increase. The CPI showed a relatively benign 0.6 percent quarterly increase. Encouragingly, for the RBNZ construction costs fell 0.1 percent, but these are set to move sharply higher as the demands for earthquake reconstruction impact on capacity within that sector.

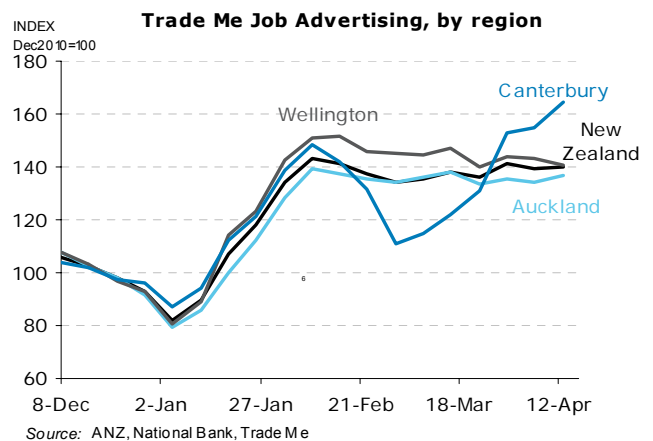


Of course the RBNZ (and us) are watching a wider collection of variables, and Sunday's shake in Christchurch was a timely reminder that the real side of the economy faces challenges. Enough said, and we need to be cautious becoming overly inflation phobic. We are not, but we simply think there is more to the

inflation story than is commonly acknowledged.

The manufacturing PMI data for March showed a large seismic impact, with production and new orders bearing the brunt and the South Island down and North Island up. But this relates to March and the survey gives us no new information beyond what the QSBO and National Bank survey did. We're more concerned with what businesses think about April and May, and as noted last week we feel some of the March fall in confidence may have been overdone.

Activity associated with earthquake activity continues to gather pace. Our Canterbury anecdotes suggest strong demand for trades people and on-line job advertising there has been steadily picking up over the last few weeks. The latter shows how quickly displaced employment or businesses can be replaced by demand in other areas, with spending in the CBD replaced by spending in the suburbs. Pay rates are also going up, with reports of an influx of trades people from other centres looking for work. We are also hearing anecdotes of more residential section sales in the Canterbury region, which the March REINZ figures confirmed. There is a strong incentive to start building now before building costs escalate.

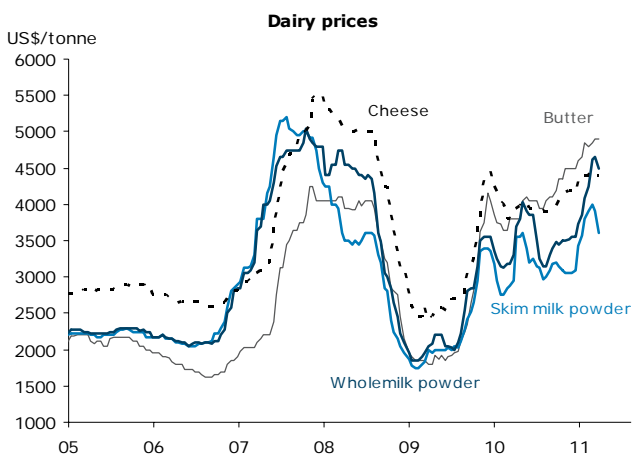


This may seem like an oxymoron to be talking about the positives in Christchurch in growth when there are a host of negative issues such as Sunday's shake epitomises. Production has been impacted in key areas. The CBD is no longer a CBD. The ground simply refuses to stop shaking and the impact of this cannot be understated (particularly in regard to likely population trends in Christchurch). Yet we need to distinguish the balance sheet/economic welfare from economic activity. Of course you can't de-link the two. The former has taken a huge hit. This will impact the latter over time. Yet we continue to suspect people

ECONOMIC OVERVIEW

are underestimating the impact the remobilisation of capital and labour (from the CBD to the suburbs) and the impact on economic activity that this will have.

All of a sudden people are being forced to leverage off their own balance sheet, including the Government. Replacing damaged goods for households and businesses takes priority, with deleveraging on hold for now. Some do not have the luxury of being able to lean on their balance sheet (and unemployment is the big risk here), but a lot do, and they are doing exactly that. Items are being replaced. Alternative housing and business premises are being found. Relocation activity will lift GDP, though growth of this nature is somewhat hollow as we are leaning on the national balance sheet (borrowing or saving less) to achieve it and such a process can only be temporary. Of course there are headwinds. But we suspect people are underestimating the role such temporary behavioural changes could play on GDP. This is not a positive story, but certainly it mitigates the hit to Q2 GDP from displaced production and a weaker tourism sector.



Sources: ANZ, National Bank, USDA

Looking at the week ahead, Wednesday sees the results of the *globalDairyTrade* online auction. We are expecting a small fall in whole milk powder prices to around US \$3,750 per tonne. This will take the cumulative fall in 7 weeks to nearly US \$900 per tonne, which on the face of it is concerning. Yet when you consider that whole milk powder prices rose US \$1,200 per tonne over the 4 months prior to that, it puts the decline in perspective. Dairy price levels are high, even allowing for the elevated NZ dollar. If prices look like they are set to drop into the low US \$3,000 per tonne region (or even below that) than we'd be on notice. But for now, this is not the most likely outcome. **The key takeout is that dairy prices are expected to remain at**

historically high levels, proving a considerable boon to the dairy sector. Prices for milk fat products have been holding up and we expect this to continue.

Dairy farmers are not the only ones doing well.

In contrast to the 2008 commodity price boom, broad based increases in commodity export prices are dispersing the gains to more of the tradable sector. Analysis by the RBNZ last week suggested that structurally higher demand from emerging market is likely to continue underpinning our agricultural export prices. How much of the benefit accrues to the tradable sector will depend on what happens to the New Zealand dollar. **A stronger NZD distributes the gains more widely but can also impede the economic rebalancing.**

Our analysis of effective exchange rates on page 8 shows conditions are becoming more favourable for more of the export sector, although this does not capture the run-up in the NZDUSD over the past week.

The March migration data is expected to start showing the impact of seismic events. We are expecting a lower net permanent and long-term migration inflow of around 200 persons. Net monthly outflows are quite possible over the next few months, but we do not envisage a mass exodus to Australia, despite rosier labour market conditions across the ditch. Visitor arrival numbers are expected to register a further fall given seismic events both here and in Japan. Looking forward, we'd expect April visitor numbers to bear out more of the Quake impact, but this will be partly mitigated by Southern China Air (the fourth largest airline in the world) starting direct flights to NZ three times a week (and reportedly daily from October). We've decided to mention the latter factor because in so far as tourism is concerned it's not all one-way traffic and is indicative of some of the positive news that is occurring. In fact if it weren't for the quake, prospects the tourism sector would be entering a pretty robust phase.

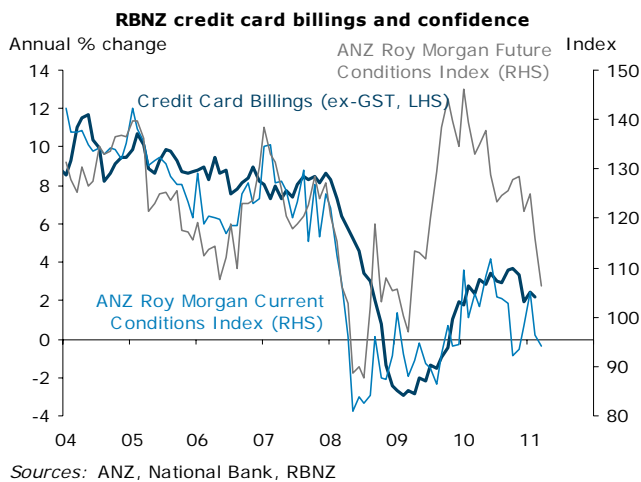
April's consumer confidence figures are worthy of close perusal for it's the first reading for April. We produce the survey so can't say much (we can't anyway as we don't get the numbers till Wednesday). Suffice to say we will be looking at four things in particular:

- What happened to the overall level of confidence in April? It will tell us how much substance was behind the 7 point fall in confidence between February and March.
- The regional picture. That is, Canterbury versus the rest.

ECONOMIC OVERVIEW

- Have preliminary signs of a housing recovery been of sufficient mass to permeate into confidence readings? Housing drives a real feel-good factor across the economy.
- Inflation expectations. The ANZ-Roy Morgan survey contains a barometer of two-year ahead inflation (and house price) expectations. Household inflation expectation measures do not tend to correspond to current/future consumer price inflation readings, but they do provide useful information on pending wage bargaining trends. We're keeping a close eye on anything expectations related, as we suspect, is the Reserve Bank.

50.1 from 52.6 in January. All five subcomponents declined, with the largest falls for production and new orders.



RECENT LOCAL DATA

- **Consumers Price Index – 2011q1.** Consumer prices rose by 0.8 percent, with annual CPI inflation rising to 4.5 percent.
- **SNZ International Travel and Migration – February.** A net permanent and long-term inflow of 450 persons (s.a.) was recorded, with annual net immigration easing to 8,249 persons. Visitor arrival numbers fell 4.4 percent (s.a), with levels broadly unchanged from 12 months earlier.
- **SNZ Food Price Index – March.** Food prices rose 0.3 percent to be 5.5 percent up on a year earlier.
- **REINZ housing market report – March.** There were 4757 (s.a.) sales, a 4.6 percent monthly increase. Sales outside of Canterbury rose 5.9 percent (s.a.). The REINZ House Price index eased 0.2 percent (s.a), with prices 1.8 percent lower than 12 months earlier. The median days to sell eased to 45 days (s.a.) from 48 in February.
- **BNZ - Business NZ Manufacturing PMI – March.** The headline manufacturing PMI eased to

INTEREST RATE STRATEGY

SUMMARY

Interest rates continue to edge higher as the market contemplates an earlier start to the tightening cycle, exacerbated by positioning and the more upbeat tone of the Governor Bollard's speech last week. The swap yield curve has also steepened, with paying interest in the back end by those buying bonds more than offsetting yield rises at the short end. We think yields could move higher in the near-term as long positions get stopped out, but receivers will emerge if 2-year yields get towards 3.5 percent.

MARKET THEMES

- Having fully priced a December hike, the market is now contemplating September. That's a bit of a stretch, but the NZ market tends to be flow driven, and bond issuance is having an impact.
- Inflation fears and market positioning have been pivotal in recent moves.
- Strong demand for NZDMO tender putting pay-side pressure in the long end by those looking to buy bonds and sell swaps.

REVIEW AND OUTLOOK

Interest rates continue to edge higher, with the benchmark 2 year swap yield up almost 30bps since the mid-March lows. Thirteen of those basis points occurred last week alone. Market pricing for the first rate hike by the RBNZ has now shifted from sometime in Q1 2012 to December 2011 now. Certainly, **the economic data, while poor, has not been disastrous.** The housing market appears to be picking up outside of Christchurch (off low levels admittedly), and electronic card transaction data suggests decent volume growth for retail sales in Q1. More notably, RBNZ Governor Bollard delivered a speech last week in which he said that "if households and firms use the income boost from higher commodity prices and exchange rates to bring forward consumption and investment, or increase borrowing, then pressure on resources in New Zealand would lead to more inflationary pressure. **Monetary policy would need to counteract any rise in inflation expectations.**" This was notable given that inflation was not even mentioned in the March policy assessment. **Markets took that as a sign that rate hikes could come sooner, and for a market that is long, this saw a squeeze.** The risk is that there could be more long positions getting stopped out, sending yields higher. There is also pay-side pressure at the back end from investors buying bonds and selling swaps to take advantage of the carry. **With the market wary of the possibility that the sell-off could have further to**

go, receive side interest is unlikely to emerge until 2-year yields get up towards 3.5 percent.

PREFERRED BORROWING STRATEGIES

We have not been surprised by recent rises in swap rates given our view that the RBNZ would be raising rates again in December (as opposed to in 2012). But now that the market is fully priced for a December hike, from a valuation perspective, it is difficult to argue that there is a lot of value in adding to hedges at current levels, particularly at the short end. Long positioning may see rates move higher yet, as we have discussed, but beyond that, it's time the market took a breather. We do believe there is value in adding to medium to long term hedges on dips on the view that global interest rates are set to rise, and take NZ rates with them. But with the OCR this low, we acknowledge that this does mean paying a substantially higher rate, and cashflow constraints may mean this is simply not a choice. Cap premiums are low relative to the slope of the curve, and this may be an attractive alternative.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↑	Rate hike some time away, but risk is it'll be sooner.
NZ data	↔/↑	Housing picking up outside of Christchurch.
Fed Funds / front end	↑	Fed rhetoric mixed, but more on the hawkish side.
RBA	↔/↑	Seem comfortable now, but can't rule out more hikes.
US 10 year	↔	Yields back off on risk aversion and mixed data.
NZ swap curve	↔/↑	Curves have steepened too far. Time to unwind.
Flow	↔/↑	No receivers in sight.
Technicals	↔	Squeeze set to continue?

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 28-Apr-11	-2	0
Thu 9-Jun-11	+1	+1
Thu 28-Jul-11	-1	+1
Thu 15-Sep-11	+2	+7
Thu 27-Oct-11	+9	+16
Thu 8-Dec-11	+16	+24
Thu 26-Jan-12	+28	+44

TRADING THEMES WE FAVOUR AT PRESENT

Last week we favoured taking profit on steepeners on the view that short end rates were set to move higher. Short end rates did rise, and the bond curve has flattened, but the swap curve has not, courtesy of normalising swap spreads, which we continue to favour. However, with US rates down here and the NZ short end having moved to fully price in a December hike, we are neutral on the curve. We continue to favour being paid the 6 month OIS.

CURRENCY STRATEGY

SUMMARY

Having briefly hit 0.80 late last week, the NZDUSD is seemingly on track to attempt a push higher. While previous resistance levels have been broken through with ease, the NZD might struggle to keep up the pace and we think a corrective move lower is now long overdue. We suspect there will be attempts to put on fresh short positions at current levels, with key support at 0.7850.

MARKET THEMES

- NZD top performer last week.
- Comments by RBNZ suggesting comfort at higher nominal exchange rate provide support.
- As do rise in NZ swap yields.
- Sovereign concerns once again weighed on EUR.

REVIEW AND OUTLOOK

The NZD gained the most against the USD amongst the major currencies last week. The 2.1 percent gain was even more impressive given the flat performance of the AUD. Clearly then, NZD strength was NZ specific as opposed to merely riding in the AUD's coattails. What was behind the NZD's moves? We believe the RBNZ Governor's speech early in the week, where he said that "the Bank expects the higher terms of trade to continue to be reflected in the exchange rate, as it is currently", was influential. Whether it signals a shift in the Bank's thinking on the NZD and an implicit endorsement of the current level remains to be seen. But it is certainly a departure from the past when the RBNZ had tried to jawbone the NZD down every time it has been high. The rise in NZ swap yields during the week, in which the benchmark 2-year yield rose 13bps, also assisted in the NZD's moves.

Recent moves now look overdone and we think a pullback is now overdue. Since the mid-March low, the NZD has gained 12.3 percent in just over 4 weeks in a move that is pretty much in a straight line. Key resistance levels have been broken through with ease, and whether the NZD can close out the week above 0.80 will be critical. If it can, then odds are that we could see an attempt towards the post-float high of 0.8214. We think this will be too much of a stretch for now, especially when fresh short positions will be attempted at these levels and we will likely see profits being taken after its recent strong run. Key support level is at 0.7850 and we think any corrective move there will see buying support emerge.

The AUD is close to its post-float high levels but may struggle to push too much higher.

Speculative positioning remains very long in AUD,

and it will take a hawkish RBA minutes this week to spark fresh buying to take AUD higher. We doubt the RBA minutes will shed too much light on future policy moves. **Looking at NZDAUD, we think this cross could have further upside in the near-term, with 0.76 shaping up as a key level** being the 61.8 percent Fibonacci retracement level and also the top of the downtrend channel that has been in place since mid-2010.

The USD continues to come under downward pressure despite the EUR being weighed by sovereign concerns. With policymakers in emerging Asia focused on reigning in inflation, further policy tightening in the region can be expected. With that, we can expect Asian currencies to continue gaining against the greenback.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↑	Getting close to our fair value estimates.
Yield	↑	NZ yields squeezed higher.
Commodities	↔	Commodity prices continue to soar.
Partial indicators	↔	Housing market picking up outside of Christchurch.
Technicals	↔	Support remains at 0.7300.
Sentiment	↑	Reinsurance flows support.
Other	↑	Terms of trade continue to support.
On balance	↔	Nearing key resistance levels.

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	↓	Yield differentials suggest NZD should be lower.
Commodities	↑	Soft commodities driving more exporter hedging.
Risk aversion	↔/↑	Watch equities.
Partial indicators	↔	Could have been worse.
Technicals	↑	0.7850 key support level.
AUD	↑	Post-float high.
Sentiment	↑	Reinsurance flows support.
Other	↑	Terms of trade support.
On balance	↔	Too far too fast. Corrective pullback due.

EFFECTIVE EXCHANGE RATE UPDATE

SUMMARY

Our effective exchange rate (EER) measures take into account the world prices of our exports (e.g. commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations. Strengthening export commodity prices and a weaker NZD contributed to more enhancing trading conditions for all eight groups in March. Disparities in trading conditions remain, with trading conditions more enhancing than average for four groups but more restrictive than average for three groups. For individual exporters, however, competitiveness will depend on who you sell to as well as what you are selling.

IMPROVING FORTUNES FOR ALL EIGHT SECTORS

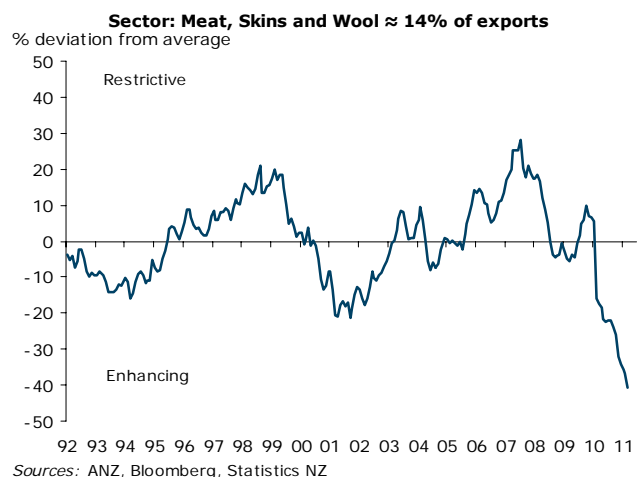
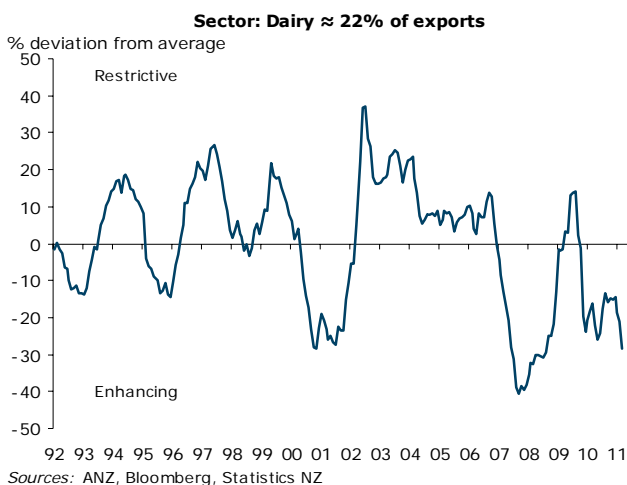
The broad-based strength evident in the March ANZ Commodity Price Index was the major catalyst for improving conditions. The largest movements were for those sectors benefiting from higher commodity prices, notably dairy, forestry, meat, skins and wool, and crude. NZD falls against the AUD, JPY, GBP and USD also helped.

Sizeable disparities in trading conditions are evident in the various export groups.

Conditions remain stimulatory for meat, skins and wool, dairy and seafood. Conditions for the **meat, skins and wool group are the most favourable since at least the early 1990s**. Increasing oil prices have moved conditions for crude into enhancing territory. Largely as a result of the

lower NZD/AUD, conditions for manufacturers have moved into more neutral territory from restrictive last month. Conditions remain restrictive for the remaining three groups, most evidently for horticulture where trading conditions look particularly challenging. Due to the high NZD against the USD, GBP and euro, conditions remain difficult for services exporters (e.g. tourism, education) as well. While parts of the export sector are doing very well there are still pockets of weakness, particularly for those sectors not benefiting from the upswing in export commodity prices.

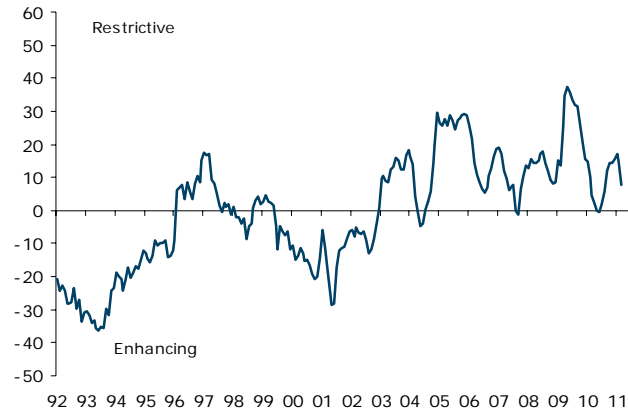
Our analysis is illustrative only as only it does not take into account of currency hedging, particularly for sectors such as dairy. Even within sector groups, however, trading conditions are likely to be quite variable. The low NZD/AUD, for example, is likely to benefit manufacturers selling to the Australian market, and for trans-Tasman tourism. Conversely, a NZD/USD above the 75 cent level (it is currently around 79 cents) makes the going tough for firms selling into USD-denominated markets, especially those with little pricing power or those not benefiting from historically high export commodity prices. **The picture is also complicated by the fact that some exporters have imported inputs, providing a natural buffer against exchange rate moves.** This is difficult to measure in aggregate and is not taken into account in this analysis.



EFFECTIVE EXCHANGE RATE UPDATE

Sector: Forestry \approx 7% of exports

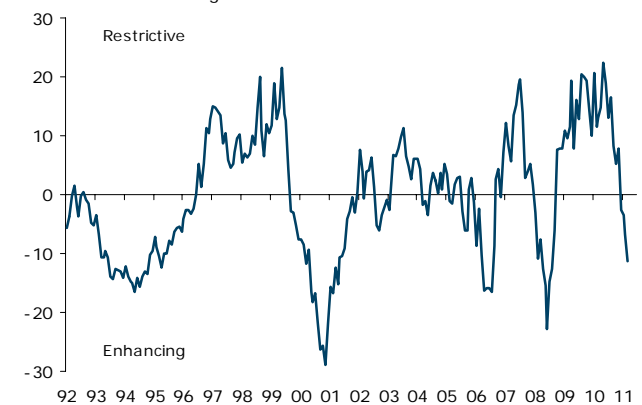
% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Crude \approx 5% of exports

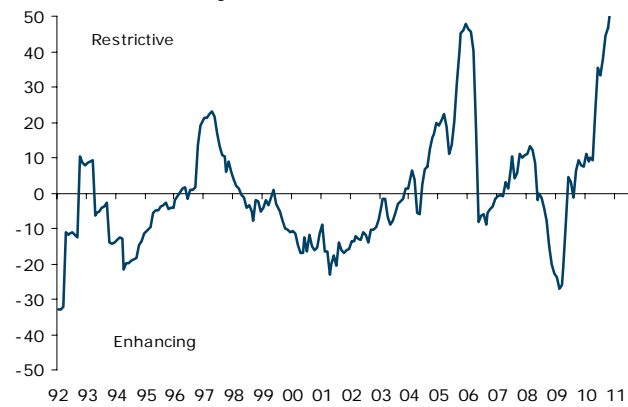
% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Horticulture \approx 4% of exports

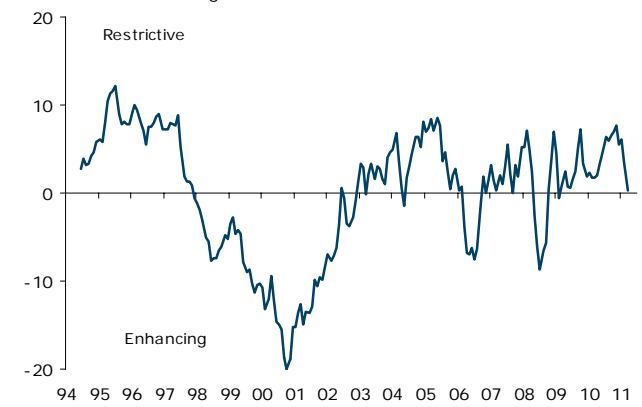
% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Manufacturing \approx 20% of exports

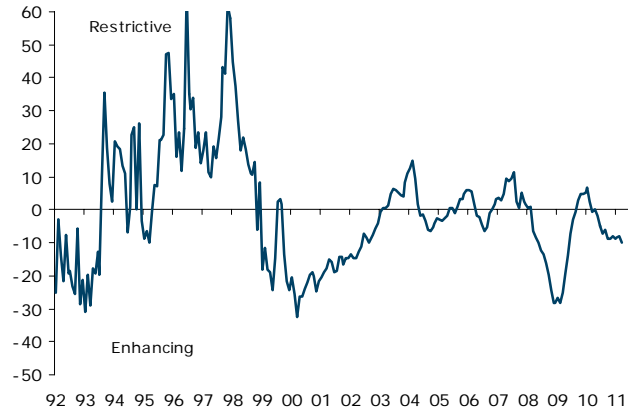
% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Seafood \approx 3% of exports

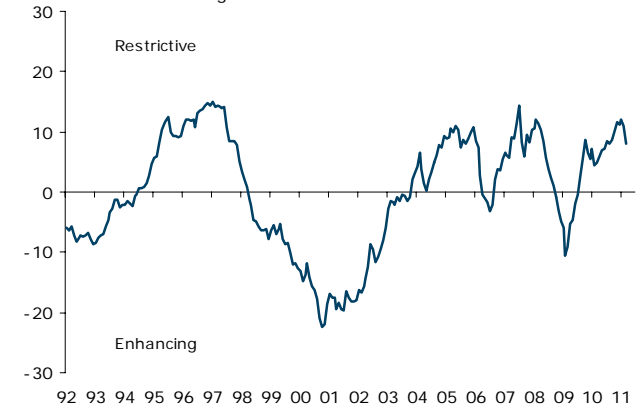
% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Services \approx 21% of exports

% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
18-Apr	NZ	Performance Services Index - MAR	- -	50.8	10:30
	NZ	Consumer Prices (QoQ) - 1Q	1.00%	2.30%	10:45
	NZ	Consumer Prices (YoY) - 1Q	4.60%	4.00%	10:45
	UK	Rightmove House Prices (MoM) - APR	- -	0.80%	11:01
	UK	Rightmove House Prices (YoY) - APR	- -	0.90%	11:01
	CH	China Property Prices - MAR			14:00
19-Apr	EC	Euro-Zone Consumer Confidence - APR A	-11	-10.6	02:00
	US	NAHB Housing Market Index - APR	17	17	02:00
	AU	Reserve Bank's Board April Minutes -			13:30
	CH	HSBC Flash China Manufacturing - APR	- -	51.8	14:30
	JN	Consumer Confidence Households - MAR	- -	40.6	17:00
	JN	Machine Tool Orders (YoY) - MAR F	- -	49.50%	18:00
	EC	EU 25 New Car Registrations - MAR	- -	0.90%	18:00
	GE	PMI Manufacturing - APR A	60	60.9	19:30
	GE	PMI Services - APR A	59.8	60.1	19:30
	EC	PMI Composite - APR A	57	57.6	20:00
	EC	Euro-Zone Current Account nsa - FEB	- -	-19.6B	20:00
	EC	ECB Euro-Zone Current Account SA - FEB	- -	-0.7B	20:00
	EC	PMI Manufacturing - APR A	57	57.5	20:00
	EC	PMI Services - APR A	56.9	57.2	20:00
	EC	Construction Output SA MoM - FEB	- -	1.80%	21:00
	EC	Construction Output WDA YoY - FEB	- -	-4.50%	21:00
20-Apr	US	Building Permits MOM% - MAR	1.10%	-8.20%	00:30
	US	Housing Starts MOM% - MAR	8.60%	-22.50%	00:30
	US	Building Permits - MAR	540K	517K	00:30
	US	Housing Starts - MAR	520K	479K	00:30
	JN	Merchnds Trade Balance Total - MAR	¥645.4B	¥654.1B	11:50
	JN	Merchnds Trade Exports YoY - MAR	-1.1	9	11:50
	JN	Merchnds Trade Imports YoY - MAR	5.9	9.9	11:50
	AU	Westpac Leading Index (MoM) - FEB	- -	-0.10%	12:30
	AU	Import price index (QoQ) - 1Q	0.60%	-3.80%	13:30
	AU	Export price index (QoQ) - 1Q	4.50%	-8.10%	13:30
	CH	Conference Board China Leading Index - FEB			14:00
	GE	Producer Prices (MoM) - MAR	0.80%	0.70%	18:00
	GE	Producer Prices (YoY) - MAR	6.60%	6.40%	18:00
	UK	Bank of England Minutes -			20:30
21-Apr	US	Existing Home Sales MoM - MAR	2.50%	-9.60%	02:00
	US	Existing Home Sales - MAR	5.00M	4.88M	02:00
	NZ	Net Migration SA - MAR	- -	470	10:45
	NZ	ANZ Consumer Confidence Index - APR	- -	101.4	13:00
	NZ	ANZ Consumer Confidence MoM - APR	- -	-6.20%	13:00
	AU	Producer Price Index (QoQ) - 1Q	1.00%	0.10%	13:30
	AU	RBA Foreign Exchange Transactn - MAR	- -	414M	13:30
	AU	Producer Price Index (YoY) - 1Q	2.70%	2.70%	13:30
	NZ	Credit Card Spending SA (MoM) - MAR	- -	-0.30%	15:00
	NZ	Credit Card Spending (YoY) - MAR	- -	5.30%	15:00
	JN	Coincident Index CI	- -	106.3	17:00
	JN	Leading Index CI - FEB F	- -	104.2	17:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
21-Apr	GE	IFO - Business Climate - APR	110.5	111.1	20:00
	GE	IFO - Current Assessment - APR	115.5	115.8	20:00
	GE	IFO - Expectations - APR	105.5	106.5	20:00
	UK	Public Sector Net Borrowing - MAR	18.7B	10.3B	20:30
	UK	Retail Sales Ex Auto Fuel(MoM) - MAR	-0.40%	-1.00%	20:30
	UK	Retail Sales Ex Auto Fuel(YoY) - MAR	0.80%	1.20%	20:30
	UK	Retail Sales w/Auto Fuel (MoM) - MAR	-0.50%	-0.80%	20:30
	UK	Retail Sales w/Auto Fuel (YoY) - MAR	1.00%	1.30%	20:30
22-Apr	US	Initial Jobless Claims - APR 16	393K	412K	00:30
	US	Continuing Claims - APR 9	3678K	3680K	00:30
	US	House Price Index MoM - FEB	-0.20%	-0.30%	02:00
	US	Leading Indicators - MAR	0.30%	0.80%	02:00
	US	Philadelphia Fed. - APR	36	43.4	02:00

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: Last week's data showed signs of life in interest rate sensitive sectors. Seismic events affected manufacturing sector sentiment. This week's ANZ-Roy Morgan Consumer Confidence survey will show how much substance there was behind the March declines in sentiment. The CPI inflation report dominates this week's local data, but key for the monetary policy outlook will be developments in inflation expectations. The economic data over the coming months will continue to be noisy. We continue to be alert for signs of rebuilding activity and for strengthening activity within interest rate sensitive sectors. Upcoming confidence readings will be closely watched for signs of stabilisation.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed Apr 20 (6:00am)	<i>globalDairyTrade</i> auction	Consolidation	We expect whole milk powder prices to ease to around \$3,750 per tonne.
Thur Apr 21 (10:45am)	External Migration – March	Easing	A net PLT inflow of 200 persons is expected. Lower Asian visitor numbers should see a 2 percent fall in visitor arrivals.
Thur Apr 21 (1:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Thur Apr 21 (3:00pm)	RBNZ-Credit Card Billings - Mar	Up	We expect a 1 percent monthly increase.
Wed Apr 27 (1:00pm)	National Bank Business Outlook - Apr	- -	- -
Thur Apr 28 (9:00am)	April OCR Review	On hold	The RBNZ will want to give March MPS insurance cuts time to work. We expect the RBNZ to remain on hold until December.
Thur Apr 29 (3:00pm)	RBNZ Credit Aggregates - March	Crawling	Ongoing deleveraging. We will closely monitor business credit levels to see if the quake will set back investment plans.
Fri Apr 29 (10:45am)	Overseas Merchandise Trade- March	Seasonal	We expect a monthly surplus of about \$600m. The annual trade surplus should hover around the \$750m mark.
Fri Apr 29 (10:45am)	Building Consents – Feb	Holding	Residential consent numbers should hold at weak levels of 1,000 consents. A strong Q3 pick-up looms from rebuilding.
Mon 2 May (1:00pm)	ANZ Commodity Price Index – April	- -	- -
Tue 3 May (10:45am)	Labour Cost Index – 2011Q1	Firming	Private sector LCI wages should rise 0.6 percent (2.2 percent y/y). Larger increases are expected in the unadjusted LCI.
Tue 3 May (10:45am)	Quarterly Employment Survey – 2011Q1	Tightening	Private ordinary time average earnings growth to accelerate to 2.7 percent y/y. Filled jobs and paid hours to rise 1 percent.
Wed 4 May (6:00am)	<i>globalDairyTrade</i> auction	Consolidation	We expect whole milk powder prices to consolidate around the US \$3,700 tonne level.
Wed 4 May (10:45am)	Building Consents – March	Flat	Dwelling consent numbers should remain broadly unchanged. Large falls in Canterbury to be offset elsewhere.
Thur 5 May (10:45am)	HLFS – 2011Q1	See-saw	We expect a 0.9 percent increase in employment, with the unemployment rate set to decline to 6.5 percent.
Tue 10 May (10:45am)	Electronic Card Transactions - April	Improving	March data showed resilience and we expect a small climb in retail transaction values.
Thur 12 May (10:45am)	Food Price Index - April	Seasonal low	No change in April prices is expected. Increases in dairy prices will not show through until the May figures are published.
Fri 13 Mar (10:00am)	REINZ housing market data - April	Firming	We expect a 4 percent increase in sales numbers. Days to sell are expected to ease further, with prices broadly stable.
Fri 13 Mar (10:45am)	Retail Trade Survey - 2011Q1	Up	Retail ECT data and rising car registrations suggest a 2.5 percent increase to nominal retail values. Core retail is expected to rise 1.5 percent, in line with the core ECT data. Retail volumes are expected to rise 1.5 percent, with core volumes up 0.7 percent.
On Balance		Mixed	A real economy and pricing side dichotomy may start to emerge but recent signs of life in housing and retail.

KEY FORECASTS AND RATES

	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
GDP (% qoq)	0.1	-0.2	0.2	-0.4	0.1	1.4	1.8	0.7	0.9	0.9
GDP (% yoy)	1.9	1.5	0.8	-0.3	-0.3	1.3	2.9	4.1	4.9	4.4
CPI (% qoq)	0.2	1.1	2.3	0.8	1.0	0.8	0.7	0.6	0.8	0.7
CPI (% yoy)	1.7	1.5	4.0	4.5	5.3	5.0	3.3	3.1	2.9	2.7
Employment (% qoq)	-0.3	1.1	-0.5	0.9	0.2	0.5	0.5	0.5	0.4	0.5
Employment (% yoy)	0.0	1.9	1.3	1.2	1.7	1.1	2.1	1.7	1.9	1.9
Unemployment Rate (% sa)	6.9	6.4	6.8	6.5	6.7	6.6	6.4	6.3	6.2	6.1
Current Account (% GDP)	-3.0	-2.2	-2.2	0.5	0.2	-1.2	-1.2	-4.2	-4.8	-4.8
Terms of Trade (% qoq)	2.0	3.0	0.6	2.5	1.5	1.5	0.5	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	12.7	17.9	12.2	8.3	7.8	6.3	6.1	2.8	0.5	-1.8

	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11
Retail ECT (% mom)	0.4	0.3	-0.7	2.3	0.9	1.0	-0.9	2.4	-0.2	1.3
Retail ECT (% yoy)	4.2	4.4	1.7	5.0	4.8	6.3	4.4	5.7	6.2	6.6
Credit Card Billings (% mom)	1.2	-1.2	0.7	1.0	0.6	0.0	-1.7	3.4	-0.3	..
Credit Card Billings (% yoy)	4.5	2.6	2.2	4.2	4.7	3.8	2.1	5.5	5.3	..
Car registrations (% mom)	5.6	-6.4	0.0	2.6	-3.8	13.5	-8.6	1.0	-1.1	-0.2
Car registrations (% yoy)	35.8	16.0	19.0	19.2	9.4	23.5	6.4	6.8	2.8	-1.0
Building consents (% mom)	1.5	3.3	-17.6	0.9	-1.9	8.0	-18.4	9.1	-9.7	..
Building consents (% yoy)	27.1	25.1	-3.1	-9.5	-17.4	-9.1	-26.5	-14.8	-28.9	..
REINZ House Price Index (% yoy)	4.2	1.8	0.9	-1.3	-3.5	-1.9	-1.6	-2.6	-0.7	-1.8
Household Lending Growth (% mom)	0.2	0.2	0.1	0.2	0.1	0.0	0.0	0.1	0.1	..
Household Lending Growth (% yoy)	2.6	2.5	2.3	2.3	2.0	1.8	1.6	1.6	1.5	..
ANZ Roy Morgan Consumer Confidence	122.0	115.6	116.3	116.4	113.6	114.5	112.2	117.1	108.1	101.4
NBNZ Business Confidence	40.2	27.9	16.4	13.5	23.7	33.2	29.5	..	34.5	-8.7
NBNZ Own Activity Outlook	38.5	32.4	25.7	26.7	30.5	35.3	34.5	..	36.6	14.7
Trade Balance (\$m)	221	-186	-430	-455	-220	-177	-223	-3	194	..
Trade Balance (\$m ann)	593	585	871	978	1259	1363	1166	893	758	..
ANZ World Commodity Price Index (% mom)	-1.6	-0.8	-1.4	2.8	3.5	4.5	2.0	3.8	2.7	4.7
ANZ World Commodity Price Index (% yoy)	50.1	47.3	38.6	32.9	31.4	23.7	23.0	27.2	25.9	29.6
Net migration (sa)	200	930	870	1010	510	600	720	450	460	..
Net migration (annual)	16504	15221	14507	13914	12610	11519	10451	8689	8249	..

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

KEY MARKET FORECASTS AND RATES

FX RATES	ACTUAL			Forecast (end month)						
	Feb-11	Mar-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZD/USD	0.752	0.762	0.794	0.74	0.75	0.75	0.74	0.72	0.71	0.70
NZD/AUD	0.739	0.737	0.753	0.73	0.71	0.73	0.73	0.72	0.72	0.73
NZD/EUR	0.545	0.538	0.552	0.53	0.55	0.56	0.56	0.54	0.53	0.52
NZD/JPY	61.53	63.31	65.98	62.9	64.5	66.0	66.6	66.2	66.0	66.5
NZD/GBP	0.463	0.475	0.487	0.46	0.47	0.47	0.47	0.46	0.45	0.45
NZ\$ TWI	66.4	66.7	68.9	65.6	66.4	67.3	67.0	65.7	64.9	64.4
INTEREST RATES	Feb-11	Mar-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZ OCR	3.00	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00
NZ 90 day bill	2.86	2.63	2.66	2.70	2.70	3.10	3.70	3.80	4.20	4.30
NZ 10-yr bond	5.54	5.66	5.71	5.70	6.00	6.10	6.20	6.10	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00
US 3-mth	0.31	0.30	0.27	0.35	0.35	0.35	0.35	0.85	1.60	2.10
AU Cash Rate	4.75	4.75	4.75	4.75	5.00	5.25	5.25	5.50	5.75	5.75
AU 3-mth	4.97	4.93	4.87	5.00	5.30	5.50	5.60	5.90	6.00	6.00

	15 Mar	11 Apr	12 Apr	13 Apr	14 Apr	15 Apr
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.65	2.64	2.65	2.65	2.66	2.67
NZGB 11/11	2.56	2.61	2.61	2.61	2.61	2.61
NZGB 04/13	3.34	3.50	3.54	3.60	3.57	3.57
NZGB 12/17	4.95	5.32	5.31	5.36	5.37	5.36
NZGB 05/21	5.46	5.77	5.76	5.78	5.78	5.77
2 year swap	3.16	3.35	3.40	3.45	3.44	3.46
5 year swap	4.23	4.56	4.59	4.64	4.65	4.67
RBNZ TWI	64.8	68.0	67.8	68.3	68.6	69.1
NZD/USD	0.7342	0.7833	0.7779	0.7853	0.7937	0.7978
NZD/AUD	0.7346	0.7411	0.7455	0.7511	0.7528	0.7549
NZD/JPY	59.91	66.34	65.33	66.00	66.25	66.38
NZD/GBP	0.4548	0.4785	0.4770	0.4830	0.4854	0.4890
NZD/EUR	0.5259	0.5416	0.5401	0.5426	0.5479	0.5524
AUD/USD	0.9995	1.0569	1.0434	1.0455	1.0543	1.0568
EUR/USD	1.3961	1.4463	1.4402	1.4472	1.4485	1.4441
USD/JPY	81.60	84.69	83.98	84.05	83.47	83.19
GBP/USD	1.6145	1.6369	1.6308	1.6260	1.6348	1.6314
Oil (US\$/bbl)	97.23	112.27	109.50	105.75	108.11	109.66
Gold (US\$/oz)	1394.70	1474.55	1455.85	1457.75	1471.98	1485.88
Electricity (Haywards)	5.60	3.37	7.06	4.71	5.25	7.87
Baltic Dry Freight Index	1548	1359	1342	1324	1309	1296
Milk futures (US\$/contract)	157	158	158	160	160	161

IMPORTANT NOTICE

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.

Criminal convictions

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:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
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Securities about which investment advice is given

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.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

- Providing cash;



IMPORTANT NOTICE

- 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.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

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.

Record Keeping

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.

Auditing

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.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

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