

AT AN INFLECTION POINT?

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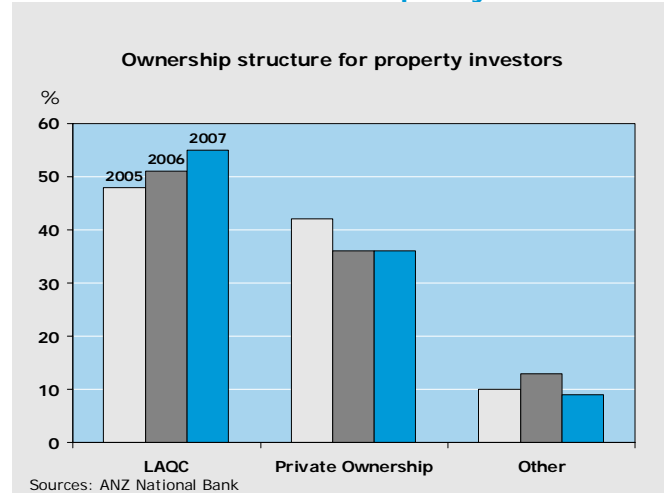
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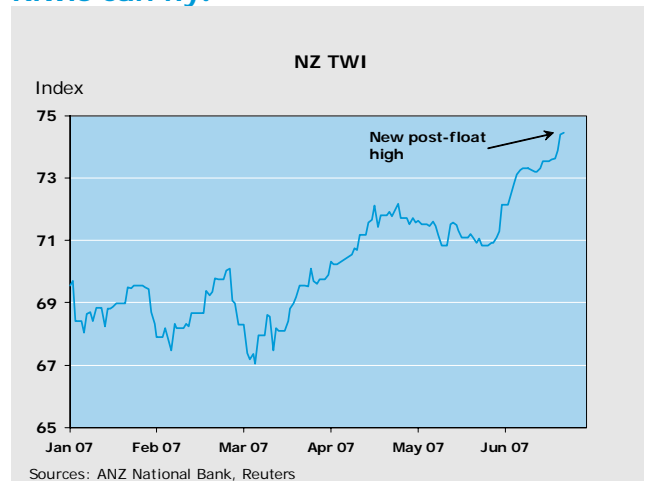
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LAQCs are becoming increasingly popular and have the attention of policy-makers.



Kiwis can fly!



ECONOMIC OVERVIEW

Given the pending data-flow, a further interest rate hike cannot be ruled out. The NZD continues to test new highs. It's a combination – even abstracting from surges in commodity prices – that leaves us circumspect on how this economic cycle could unfold.

What's ahead...

- NZ June quarter Westpac Consumer Confidence (Wednesday 0100 NZST). The recent increases in mortgage rates are expected to have further dented consumer confidence.
- NZ May Overseas Merchandise Trade (Wednesday 1045 NZST). We are expecting a small monthly trade surplus.
- NZ March quarter Balance of Payments (Thursday 1045 NZST). An improvement in the goods and services balance is expected to see the annual deficit fall to 8.4 percent of GDP.
- NZ May Building Consents (Thursday 1045 NZST). Typical mid-year council fee increases are likely to have seen builders try to get in beforehand causing a rebound in issuance.
- NBNZ June *Business Outlook* (Thursday 1500 NZST).
- NZ May Credit Growth (Thursday 1500 NZST). We expect monthly growth of around 1 percent.
- NZ March quarter GDP (Friday 1045 NZST). Consumer spending looks likely to lead the way and we are expecting growth of 1 percent in the quarter (refer to page 4).

What's the view

With little in the way of data to dictate direction markets were by-and-large in a holding pattern, with wider global sentiment driving.

Domestically, the interest rate market remains mindful of the potential for a further hike, with the interest rate bears holding the upper paw. The economy seems to be slowing and the central bank is gaining some policy traction, but it remains far from conclusive. The constant surprise in New Zealand has been for rates to move further than everyone expects, and the Q2 composition to inflation is not likely to deliver the Reserve Bank any comfort on the potential stickiness of inflation.

Indeed, our travels around the country are notable for the mixed messages we continue to receive. Each bearish economic anecdote seems to be balanced by a lot of businesses that are still doing well (although the balance does seem to be shifting to the former). There is certainly a lot of euphoria surrounding Fonterra's lift in the dairy payout!

Such anecdotes are typical when an economy is at an inflection point in the cycle, which looks to have occurred in Q2. But a key issue the Reserve Bank will no doubt be juggling is whether the slow-down being flagged by confidence indicators in H2 will truly be sustained into 2008. At this stage, the jury

remains out, and unlike the previous three years, the bias from the Reserve Bank this time around is likely to make absolutely sure this turn in the cycle will be sustained. When you have zero inflation headroom, you have little choice but to get the job done.

The June *Monetary Policy Statement* included a higher interest rate scenario that was based on the economy being more stretched and world dairy prices proving to be higher. Last week we highlighted that dairy prices continued to surge over June, and this week's GDP report will flag the extent of capacity pressure within the economy.

The Reserve Bank's estimate for Q1 looks light (0.8 percent) compared to market and our own expectations of 1 percent. However, when we look at their projections for the June quarter (another 0.8 percent), it looks too high, particularly given that consumption growth for Q2 is looking weak going by retail sales data for April and anecdotes from the retail sector. Net on net, the economy looked to have expanded around 1.6 percent in the first half of the year so we will remain a little wary in interpreting the Q1 GDP results if we do (as we expect) get an upside surprise. The quarterly data – with a standard deviation of 0.8 percent – is simply too volatile to make sweeping assessments.

On the currency front, it remained a familiar story of slow grinds up the elevator, with continued favourable sentiment towards the carry trade dominating. Financial conditions – the combination of interest rates, equities, house prices, and the NZD – are now flagging a massive turn in the cycle in H2, which we expect to dent investors' enthusiasm towards the NZD. Of course, between now and the turning point, the NZD could be another 2 to 3 cents higher if recent trends continue! It has been rather disconcerting to see the NZD shrug off movements higher in global yields, that while small in magnitude should have nonetheless capped the upside, and some spasmodic signs of changes in risk appetite. It seems that kiwis can fly.

All this leaves us very circumspect on how this economic cycle will unfold. Both the currency and debt servicing burdens are at extremes. Certainly there is a lot of good stuff going on across New Zealand. Structural lifts in commodity prices, infrastructure investment, and exploration etc. Yet in an inflationary environment, some growth will be sacrificed, and history shows that the fabled soft landing will just not cut it. Business cycles seldom die of old age. When the turning point comes, we suspect it will be aggressive.

Recent data...

- **NZ External Migration (May).** Migration recorded a net inflation of 360 (s.a.), taking the annual total to 10,682.
- **NZ Credit Card Billings (May).** Billings rose by 0.5 percent, after a 0.9 percent fall in April.

RING FENCING

While ring fencing of property losses has been touted as a way of curbing housing market excess, we are dubious whether changes will occur. This does not mean policymakers have no clout. Ultimately it may be the threat of change that dents investors' bullet-proof persona. Watch for stricter enforcement.

The ring fencing of losses, noted by the Reserve Bank, and brought up by the Minister of Finance at the Finance and Expenditure Committee last week, has been touted as a solution to help quell the rampant growth in the housing market, therefore allowing the Reserve Bank more scope to take their foot off the monetary policy brake.

Since 1991, investors have been able to offset losses related to property investment either through mechanisms such as a Loss Attributing Qualifying Company (LAQC) or simply directly against their personal income. The ANZ *Property Investors Survey* this year showed that LAQC's were by far the most popular ownership structure for property investors. And their popularity is increasing, with 55 percent of investors running their properties through an LAQC this year, compared to 48 percent in 2005. As noted by Dr Cullen last week, there has been a literal explosion in both the size of the losses reported, and the number of property investors since the change came into force. The Reserve Bank noted in its submission into housing affordability that New Zealand tax policy appears to be favourably disposed towards rental property as opposed to other countries.

But amongst all the hoop-la, there seems to be some genuine misunderstandings.

Housing receives no tax advantages relative to other investments (apart from a temporary cash flow benefit from being able to depreciate, which is subsequently recoverable). As noted by the IRD's Deputy Commissioner Robin Oliver before the Finance and Expenditure Committee, housing receives no favourable treatment. Investors can use LAQC structures to offset losses from other activities. According to Mr Oliver, the tax rules were tougher for housing investment than other types of investment.

The advantage property has resides in investors' ability to leverage, which gives it a considerable advantage over other assets.

This partly derives from the recognition that house prices are less volatile and rarely experience the big dips other asset classes such as equities have shown historically. Financial institutions are more willing to lend against housing for these reasons as opposed to other asset classes, even though housing is less liquid compared to equities and attracts higher transaction costs.

Property investors are not all "rich". The mean household income of the property investors surveyed in the ANZ *Property Investors Survey* was between \$80,000 and \$90,000 per annum, excluding investment property income. This appears to contradict the general perception that property investors tend to be in the \$100,000+ income bracket (37 percent of respondents fit into this income bracket, while 14 percent of respondents earn less than \$40,000 per annum).

There is no widespread tax rort going on.

Another interesting aspect of the ANZ *Property Investors Survey* was that 75 percent of property investments run at either a profit, or a loss of no less than \$10,000. The massive growth in the number of housing investors Dr Cullen alluded to since 1990 (from 50,000 to 200,000) has been of the typical mum and dad type. The implication we take from this is that the sizable losses being claimed by Dr Cullen look to be inflated by a few. The correct mechanism to address this is likely to reside in enforcement.

Moreover, when we look at the justification for ring-fencing losses arising directly from property investment, it looks a little dubious to us. It would undermine the principal of tax neutrality, in that all investment is taxed equally. Rents would likely increase sharply, placing more upward pressure on inflation. In any case, ring-fencing of property losses would be too late for this current housing cycle anyway.

Politically it looks a no-go, with noted opposition coming from National, while United Future and New Zealand First remain unconvinced. **This does not mean policymakers have no clout**, and we believe there will be two areas to watch over the coming year.

- **Stricter enforcement.** The IRD has the power to enforce a capital gains tax if it is felt that investors are "trading" property in order to pocket the capital gain. The 2007 *Budget* committed an additional \$14.6 million of resources to IRD. (However, we note that this is spread over three years, making the annual contribution a meagre \$4.9 million).
- **The impact on confidence.** While we do not expect any changes, prudent investors and the market will nonetheless have to ascribe a non-zero probability to such a possibility.

The upshot

While we do not expect to see ring fencing of property losses gain traction, the key areas to watch are stricter enforcement and the impact of uncertainty on confidence.

In terms of monetary policy, we doubt the issue will have material implications for policy in the near-term. Any changes (which we are sceptical off) would not be likely for some time and will come too late for the current housing market cycle.

DATA PREVIEW

CURRENT ACCOUNT – MAR QTR (due Thursday 28 June 10:45am)

	ANZ National	RBNZ	Market
Quarter	-\$2,077m	-	-\$2,260m
Annual	-\$13,742m	-	-\$13,924m
As % of GDP	-8.4%	-8.5%	-8.6%

Key points

- We expect the current account deficit to show a sizeable improvement courtesy of the trade and services balance. However, given the current mix to growth and the level of the NZD, we expect the deficit to remain high for some time.

An improvement in the annual current account deficit to 8.4 percent of GDP is expected.

Strong commodity prices supporting goods export values, plus solid visitor arrival numbers and spending, despite the high NZD, will contribute to a reasonable fall in the goods and services deficit to around 1.5 percent of GDP. This is the lowest level for this deficit for 2 years.

We expect the net investment deficit to rise slightly. Courtesy of an increase in income from foreign investment in New Zealand, this deficit is expected to rise to \$3.3 billion, or 6.9 percent of GDP. Higher interest rates in the quarter is a key driver of this.

While past its peak, any improvements in the current account deficit will be a slow grind.

Although further increases in commodity prices will help, it is difficult to envisage a material improvement in the current account deficit given the strength in the NZD, and still strong domestic demand. Ultimately, a period of NZD weakness is needed to purge the external imbalance. The fact that the net investment income deficit is predominantly made up of debt (87 percent) point to the investment income deficit being less sensitive to the corporate profit cycle than in the past and influenced more by changes in interest rates. With global interest rates moving up and domestic interest rates set to stay at high levels for some time, a material improvement in the investment income deficit is not likely over the coming quarters.

Market Implications

Barring a major surprise (which could happen if Statistics NZ puts through major revisions), we expect a reasonably muted reaction in financial markets. The real focus will be on Q1 QDP due for release the following day.

GDP –MAR QTR (due Friday 29 June 10:45am)

	ANZ National	RBNZ	Market
GDP	1.0% qoq	0.8% qoq	1.0% qoq
	2.4% apc	2.2% apc	2.4% apc
	1.7% aapc	1.6% aapc	1.7% aapc

Key points

- Q1 GDP is expected to grow by 1.0 percent, a further acceleration from the Q4 rebound.
- Domestic demand is expected to be strong.

Headline GDP growth is expected to print at 1 percent for Q1, following growth of 0.8 percent in Q4. On the production side, once again most of the growth will come from the services sector – particularly those with large exposure to the housing market such as finance & insurance and real estate & business services. On the expenditure side, private consumption will lead the way, with an expected contribution of 1.2 percentage points, while investment is also expected to make a solid contribution. A run-down of inventories and the net external sector are expected to make negative contributions to growth.

We see potential upside risk to our estimate.

Manufacturing production has been weak over recent quarters. Indicators such as the Business NZ PMI point to a rebound, although last week's manufacturing survey suggest a flat quarter. However, the risk of a strong rebound remains. Australian GDP also grew by 1.6 percent in the March quarter and although not entirely relevant, the correlation between Australian and NZ quarterly GDP growth over the past two years, has been 0.8!

The composition will remain a concern to the Reserve Bank. Given the strength in interest rate sensitive sectors such as private consumption and investment, the Bank will remain concerned at whether financial conditions are indeed tight enough to get the desired sustained slowing in the economy. But as this release is largely historical, the Bank's focus will primarily remain on indicators of activity post their three interest rate hikes this year.

Market Implications

Market expectations are for growth of 1.0 percent. This is in excess of the Reserve Bank's June *Monetary Policy Statement* forecast of 0.8 percent. Therefore any further upside to the GDP number is likely to see the NZD squeeze up further, and markets increase their probability of a July interest rate hike.

INTEREST RATE STRATEGY

Offshore moves to dictate in the early part of the week, but domestic data later in the week holds the key for direction. We favour curve inversion trades particularly in the front end of the IRS curve.

Market themes...

- Flow will continue to dictate direction of curves – 2yr limited value below 8.35 percent with mortgage flow expected.
- Data later in the week will be the major focus for domestic markets.
- Flight-to-safety flows in the US will help normalise the IRS and bond curves.

Outlook...

As it seems nearly always the case, the New Zealand market this week will be dictated to by flows. Late last Friday there was aggressive receiving interest in the 2yr IRS, which indicates flows through the Uridashi markets. Front dated Bills Libor also indicated issuance being priced. However this aggressive receiving of 2yr was limited to 8.35 percent as this seems to be the line in the sand ahead of key data prints and mortgage activity.

After having little in the way of data last week, this week provides more for the local market to view and digest. The key print will be the March quarter GDP, which is expected to come in stronger than what the RBNZ has forecast. The composition is unlikely to please the RBNZ, with domestic demand again the main driver. However, there has been a lot of water under the bridge since Q1, and we favour receiving into strength of this data. The market will continue to keep a bias for higher interest rates and will also provide further support for the NZD despite FX intervention from the RBNZ.

Apart from Q1 GDP, consumer confidence and the June National Bank *Business Outlook* will provide important insights into how sentiment is faring following the June rate hike and further post-float highs in the NZD. The RBNZ will be hoping for further softness in confidence, which they need to translate into weaker domestic demand over the second half of this year.

Offshore, the FOMC will hold centre stage although Japanese CPI data will also be of interest. The unanimous view is that the Fed will be on hold again. But given volatility in the US bond market and concerns arising again from the subprime mortgage market fallout, the Fed's statement on how they view economic activity will be crucial – in particular whether the Fed signals a clear tightening bias again, having removed that reference a few months ago.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔/↑	5 points priced in for July, and more to follow if GDP prints strong.
NZ data	↔/↑	Data end of the week key for market direction.
Fed Funds/front end	↔/↑	Subprime concerns again, but unlikely to see the Fed let its guard down. FOMC statement the key.
RBA	↔/↑	CPI print the key for RBA.
US 10 year	↔/↓	Flight-to-safety flows – mortgage related
NZ swap spreads	↔/↑	10yr spreads expected to widen on domestic NZ Bond demand.
Flow	↔/↑	2 year IRS limited below 8.35 percent. Curve inversion trades favoured.
Technicals	↔	Data later in the week will hold the key for the technical picture.

Borrowing strategies we favour at present

Interest rates remain range bound awaiting this week's data for direction. While we have seen significant increases in rates along the curve, the risk bias is still to the upside. Fixing in the 1 to 3-year part of the curve represents good insurance over the short-term and allows borrowers to participate in restructuring opportunities if we were to see a dip in yields in the medium-term. Introducing optionality into your strategy, if looking to hedge further out on the curve, allows participation if rates fall in the medium term.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 26-Jul-07	19	35
Thu 13-Sep-07	39	45
Thu 25-Oct-07	39	58
Thu 6-Dec-07	43	70
Thu 24-Jan-08	43	71
Thu 6-Mar-08	39	61
Thu 24-Apr-08	31	58

Trading themes we favour at present

We favour curve inversion trades in the front end IRS. Continued pressure in the 1 year IRS and OIS curves.

CURRENCY STRATEGY

Locally, the Q1 Balance of Payments and GDP releases will be the focus, while globally the FOMC decision is the main focal point. Japanese retail investors look to be back in play and further grinds up for the kiwi look on the cards.

Market themes...

- Data, data, data! RBNZ intervention to no avail.
- Retail demand from Asia – it is not a red-herring this week.
- FOMC rate decision. No change expected but the statement will be of interest.

Outlook...

After having little in the way of local or global data last week to provide direction for markets, the other extreme is the case this week with a smorgasbord to pick and choose from. Locally, the big releases are the March quarter Balance of Payments and GDP results, while consumer confidence and the June National Bank *Business Outlook* will also be important.

We are expecting the current account deficit (due Thursday NZST) to have recorded an improvement in the March quarter, to 8.4 percent of GDP. However, it is the GDP release due the following day that will be of most interest. We are expecting GDP to grow by 1 percent in the March quarter, which is stronger than the Reserve Bank's June *Monetary Policy Statement* estimate of 0.8 percent. Although generally viewed as historical, a stronger GDP print will keep the bias for interest rates skewed to the upside and markets attuned to the possibility of a July OCR hike. It will of course also provide further support to the NZD.

Globally, it is also a reasonably big data week. Japanese CPI on Friday will get some attention as markets continue to assess whether an interest rate increase from the BoJ will come sooner rather than later. Carry trades are well and truly back in favour and it is increasingly looking like only a change in stance from the BoJ will see a major adjustment in sentiment here. In the US, it is the FOMC interest rate announcement, also on Friday, which will be important. Although no change in rates is expected, a change in the statement towards a tightening bias will lend support to the USD.

We mentioned last week that the favoured opinion – that support for the NZD was being dominated by Asian demand – was in fact a red-herring. Well, it is not a red-herring this week! Japanese retail investors look to have come back out of the woodwork, again chasing after the high New Zealand yields. Even the threat of intervention from the

RBNZ has not seen them take a step backwards, with many now looking to take on the Bank.

Technically we remain in uncharted waters with a potential short-term target of 0.7733 although with the spectre of intervention, the market may be reluctant to attain this without USD weakness. On the downside, support initially at 0.7605 would be taken out on any poor data results with more solid support at 0.7550 likely to hold.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↑/↔	Advantage NZ – 8.00 v 6.25.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Aussie ahead of us in the terms of trade cycle.
Technicals	↔	Rangey, but 0.9075 resistance. A break will see 0.9150 tested.
Sentiment	↔	Markets want to test the RBNZ.
Other	↔	Yield still attractive for both Uridashi and eurokiwi. But maturity profile steepening.
On balance	↔/↑	Short-term consolidation with strengthening bias.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.62-0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↓	Some sectors booming, but over-priced now.
Yield	↑	8% clearly a buy trigger.
Commodities	↔	Higher commodity prices remain supportive but NZD over-priced on dairy alone.
Risk aversion	↔	Euphoria exists but RBNZ planted seeds of doubt.
Partial indicators	↔	Commodity currency consolidating, emerging markets remain jittery at extended levels.
Technicals	↑	Holding support levels and making new highs.
AUD	↑	Also bid by retail.
Sentiment	↑	Markets want to take on the RBNZ.
Other	↑	Summer holidays typically lead to NZD demand.
On balance	↑/↔	Consolidation with upward bias but 0.78 is extent of move.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
25 Jun	GE	GfK Consumer Confidence Survey (Jul)	7.8	7.3	18:10
	EU	ECB's Smaghi at Round Table	-	-	22:15
26 June	US	Existing Home Sales (May)	5.97m	5.99m	02:00
		Existing Home Sales (May) - mom	-0.3%	-2.6%	02:00
	JN	Corporate Service Price (May) – yoy	-	1.1%	11:50
	AU	Conference Board Leading Index (Apr)	-	0.5%	12:00
	EU	ECB Current Account (Apr)	-	5.4B	20:00
27 Jun	US	S&P/CS Composite-20 (Apr)	-2.2%	-1.4%	01:00
		Richmond Fed Manufacturing Index (Jun)	-8	-10	02:00
		New Home Sales (May)	925k	981k	02:00
		New Home Sales (May) – mom	-5.7%	16.2%	02:00
		Consumer Confidence (Jun)	105.0	108.0	02:00
		Fed's Moskow to Speak at Civic Federation Luncheon in Chicago	-	-	04:30
	NZ	Westpac NZ Consumer Confidence (2Q)	-	117.7	01:00
		Trade Balance (May)	50m	-212m	10:45
		Imports (May)	3,390m	3,390m	10:45
		Exports (May)	3,500m	3,180m	10:45
	AU	RBA Deputy Governor Lowe Speaks	-	-	11:00
	JN	Retail Trade (May) – mom	-0.5%	0.3%	11:50
		Small Business Confidence (Jun)	-	49.3	17:00
	UK	BBA Loans for Hire Purchase (May)	-	64,815	20:30
28 Jun	US	Durable Goods Orders (May) – mom	-0.1%	0.8%	00:30
		Durables Ex-Transportation (May) – mom	0.3%	1.9%	00:30
		Treasury's Paulson Speaks at Investing Event at New York Stock Exchange	-	-	04:55
	NZ	Tax Receipts, Revenue (May)	-	-	09:00
		Current Account Balance (1Q)	-2,450m	-3,929m	10:45
		Building Permits (May) – mom	-	0.7%	10:45
		Money Supply M3 (May) – yoy	-	14.6%	15:00
		NBNZ Business Confidence (Jun)	-	-48.2	15:00
	JN	Industrial Production (May P) – mom	4.8%	-0.2%	11:50
		Vehicle Production (May) – yoy	-	-3.8%	16:00
	AU	Job Vacancies (May)	-	-2.3%	13:30
	GE	ILO Unemployment Rate (May)	6.4%	6.4%	18:00
		Unemployment Change (000's) (Jun)	-20k	3k	19:55
		Unemployment Rate s.a. (Jun)	9.2%	9.2%	19:55
		Bloomberg Germany Retail PMI (Jun)	-		20:00
	EU	Euro-Zone M3 s.a. (May) – yoy	10.4%	10.4%	20:00

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Date	Country	Data/Event	Mkt.	Last	Time (NZST)
28 Jun cont.	EU	Bloomberg Euro-Zone Retail PMI (Jun)	-	48.4	20:00
		ECB's Constancio Speaks at Conference on EU Presidency	-	-	20:15
29 Jun	US	GDP Annualised (1Q F)	0.8%	0.6%	00:30
		Personal Consumption (1Q F)	4.4%	4.4%	00:30
		GDP Price Index (1Q F)	4.0%	4.0%	00:30
		Core PCE (1Q F) – qoq	2.2%	2.2%	00:30
		Help Wanted Index (May)	29	29	02:00
		FOMC Rate Decision Expected	5.25%	5.25%	06:15
	EU	ECB's Gonzalez-Paramo, EU's Alumia Speak in Turkey	-	-	01:30
	NZ	GDP (1Q) – qoq	1.0%	0.8%	10:45
	JN	Jobless Rate (May)	3.9%	3.8%	11:30
		Overall Household Spending (May) – yoy	0.6%	1.1%	11:30
		National CPI (May) – yoy	-0.1%	0.0%	11:30
		National CPI Ex-Fresh Food (May) – yoy	-0.1%	-0.1%	11:30
		National CPI Ex-Food & Energy (May) – yoy	-	-0.2%	11:30
		Housing Starts (May) – yoy	-1.0%	-3.6%	17:00
		Construction Orders (May) – yoy	1.2%	1.8%	17:00
	AU	Private Sector Credit (May) – mom	1.1%	1.2%	13:30
	UK	M4 Money Supply (May F) – mom	-	1.2%	20:30
		M4 Sterling Lending (May F)	-	26.6B	20:30
		Net Consumer Credit (May F)	0.5B	0.5B	20:30
		Mortgage Approvals (May)	105k	107k	20:30
		Total Business Investment (1Q F) – qoq	-1.3%	-1.3%	20:30
		GDP (1Q F) – qoq	0.7%	0.7%	20:30
		Current Account (1Q)	-12.0B	-12.7B	20:30
		GfK Consumer Confidence Survey (Jun)	-3		21:30
30 Jun	US	Personal Income (May)	0.6%	-0.1%	00:30
		Personal Spending (May)	0.7%	0.5%	00:30
		PCE Deflator (May) – yoy	2.3%	2.2%	00:30
		PCE Core (May) – mom	0.1%	0.1%	00:30
		Chicago Purchasing Manager (Jun)	57.5	61.7	01:45
		Construction Spending (May) – mom	0.1%	0.1%	02:00
		University of Michigan Confidence (June F)	84.0	83.7	02:00

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

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

NEW ZEALAND DATA WATCH

Key focus over next four weeks: The key piece of data this week is March quarter GDP. It is likely to print strongly and above the Reserve Bank's June *Monetary Policy Statement* estimate. This will keep the bias for interest rates skewed upwards and the markets attuned to the risk of a July interest rate hike. However, this data is viewed as largely historical. The Reserve Bank's main focus will be on whether the tighter financial conditions are slowing domestic demand and hence inflationary pressures. The key release for the Reserve Bank is therefore the June quarter CPI.

Date	Data/Event	Economic Signal	Comment
Wed 27 Jun (01:00)	Westpac Consumer Confidence (Jun qtr)	Down	The recent increases in mortgage rates are expected to have further dented consumer confidence.
Wed 27 Jun (10.45)	Overseas Merchandise Trade (May)	Small surplus	Surging commodity prices will ensure export values remain strong, while higher oil prices will also support import values.
Thu 28 Jun (10.45)	Balance of Payments (Mar qtr)	Improving	An improvement in the goods and services balance is expected to see the current account deficit fall to 8.4 percent of GDP.
Thu 28 Jun (10.45)	Building Consents (May)	Rebound?	The underlying trend in building consents is softening. However, proposed fee increases in July may see builders try to get in before hand and could see a rebound in consent issuance.
Thu 28 Jun (10.45)	Credit Growth (May)	Still strong	Credit has been growing by at least 1 percent per month for the past nine months now. We expect this to continue.
Thu 28 Jun (15.00)	National Bank <i>Business Outlook</i> (Jun)	-	-
Fri 29 Jun (10.45)	Gross Domestic Product (Mar qtr)	Very strong	Momentum from the end of last year has spilled over into Q1. Consumer spending looks likely to lead the way and we are expecting growth of 1 percent in the quarter.
Thu 5 Jul (15.00)	ANZ Commodity Price Index (June)	-	-
Tue 10 Jul (10.00)	NZIER QSBO (Jun qtr)	Easing	After three OCR increases by the RBNZ this year and a new post-float high for the currency, we feel business confidence would have suffered in the June quarter.
Fri 13 Jul (10.45)	Retail Trade Survey (May)	Further consolidation	Higher mortgage rates are expected to eat into consumers' disposable incomes. Further consolidation in consumer spending is likely.
Mon 16 Jul (10.45)	Consumer Price Index (Jun qtr)	Watch non-tradable inflation	We expect the annual headline CPI to ease to 1.7 percent in the June quarter. However, it is the non-tradable inflation print that is most important. We expect this to remain elevated and over 4 percent in annual terms.
circa 16 July	REINZ Housing Market report (Jun)	Easing	There were very early signs that the housing market had begun slowing in May. We expect further evidence in this release, although an apparent shortage of houses will keep house prices elevated.
Fri 20 Jul (10.45)	External Migration (June)	Easing	PLT departures have trended upwards. Are overseas destinations becoming more attractive places to live?
On Balance		Mixed	Inflection point?

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SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Apr 07	May 07	25 Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
NZD/USD	0.734	0.733	0.763	0.700	0.650	0.650	0.640	0.630	0.620	0.590
NZD/AUD	0.888	0.888	0.900	0.854	0.783	0.774	0.771	0.778	0.775	0.756
NZD/EUR	0.544	0.542	0.567	0.507	0.478	0.489	0.492	0.496	0.496	0.480
NZD/JPY	87.3	88.5	94.4	86.8	81.9	82.6	80.6	78.1	75.6	70.8
NZD/GBP	0.369	0.369	0.382	0.355	0.333	0.337	0.335	0.333	0.333	0.321
NZ\$ TWI	71.3	71.4	74.2	68.3	63.7	64.1	63.5	63.1	62.4	59.7
NZ interest rates	Apr 07	May 07	25 Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
OCR	7.67	7.85	8.00	8.00	8.00	8.00	8.00	8.00	7.50	6.75
90 day bill	7.98	8.09	8.36	8.20	8.10	8.10	8.10	8.10	7.50	6.80
10 year bond	6.08	6.18	6.78	6.60	6.60	6.60	6.10	6.00	6.10	6.30
International	Apr 07	May 07	25 Jun 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	4.75	4.75	4.75	4.75	4.75	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	6.38	6.36	6.42	6.40	6.40	6.70	6.90	6.90	6.90	6.90

KEY RATES

	22 May	18 June	19 June	20 June	21 May	22 June
Official Cash Rate	7.75	8.00	8.00	8.00	8.00	8.00
30 day bank bill	7.99	8.21	8.20	8.22	8.20	8.20
90 day bank bill	8.09	8.34	8.34	8.35	8.36	8.36
NZGB 07/09	7.13	7.30	7.27	7.27	7.34	7.33
NZGB 11/11	6.80	7.17	7.14	7.13	7.16	7.15
NZGB 04/13	6.52	7.08	7.05	7.04	7.07	7.06
NZGB 12/17	6.20	6.81	6.78	6.76	6.78	6.76
1 year swap	8.21	8.43	8.44	8.45	8.47	8.47
2 year swap	8.06	8.34	8.34	8.35	8.39	8.37
5 year swap	7.71	8.06	8.06	8.06	8.10	8.09
RBNZ TWI	71.1	73.6	73.6	73.9	74.4	74.5
NZD/USD	0.7280	0.7548	0.7555	0.7591	0.7634	0.7640
NZD/AUD	0.8873	0.8961	0.8959	0.8965	0.9031	0.9026
NZD/JPY	88.44	93.22	93.39	93.66	94.39	94.66
NZD/GBP	0.3694	0.3817	0.3808	0.3820	0.3833	0.3834
NZD/EUR	0.5410	0.5636	0.5629	0.5652	0.5698	0.5704
AUD/USD	0.8205	0.8423	0.8433	0.8467	0.8453	0.8464
EUR/USD	1.3457	1.3393	1.3422	1.3430	1.3397	1.3394
USD/JPY	121.48	123.50	123.61	123.38	123.64	123.90
GBP/USD	1.9709	1.9777	1.9841	1.9874	1.9919	1.9927
Oil	66.25	68.04	69.06	69.15	68.50	68.35
Gold	662.05	657.00	656.55	660.35	654.85	651.85
Electricity Price Index	7.47	6.98	7.17	7.59	7.78	7.87

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