Market Focus

New Zealand

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Open partnerships
Open possibilities

TRYING IT ON?

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Page 2: Economic overview

> Plaudits to those who negotiated the free-trade agreement with China. Domestic data continues to suggest the economy is stagnant at best. With the Reserve Bank Governor acknowledging growth has slowed markedly, the diminished availability of credit, and the IMF global projections far weaker than the Reserve Bank's March view, the market will now look for a softer tone at the April Review. Whether this is feasible will depend on this week's inflation read, particularly given rising pricing intentions.

Page 6: Economic comment – inflation cycles

> Looking at the two previous inflation cycles, we know that it lags growth by a year, tends to turn aggressively, and the non-tradable components to turn first have been household and vehicle servicing. However, ultimately the labour market continues to hold the key to the timing of the easing cycle and particularly given stronger inflationary pressure from non-contestable areas over this cycle relative to previous.

Page 8: Economic comment – global watch

> US data remains consistent with the economy entering recession, with consumer confidence at a 26-year low. The UK housing market is soft, with house prices beginning to fall and the Bank of England have reacted by cutting interest rates further. In Asia the data was mixed, with Singaporean GDP rebounded strongly, but Malaysian industrial production slowing.

Page 9: Interest rate strategy

> Spike up in pricing intentions from the QSBO survey saw strong paying interest emerge. Market now looking for strong Q1 CPI print tomorrow. Receiving interest to emerge once the CPI report is out of the way as focus turns to the weakening growth profile once again.

Page 10: Currency strategy

> The NZD remains vulnerable given the domestic growth picture, and we continue to suspect we may be seeing the start of a sharp and sizeable move lower. With the US and global economy being widely acknowledged as more fragile, and the USD now looking supported post G7, attention may well turn to commodity prices.

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ECONOMIC OVERVIEW

Plaudits to those who negotiated the free-trade agreement with China. Domestic data continues to suggest the economy is stagnant at best. With the Reserve Bank Governor acknowledging growth has slowed markedly, the diminished availability of credit, and the IMF global projections far weaker than the Reserve Bank's March view, the market will now look for a softer tone at the April Review. Whether this is feasible will depend on this week's inflation read, particularly given rising pricing intentions.

What's ahead?

> **NZ February Retail Sales** (Monday 1045 NZDT). Following fairly soft January retail sales, we expect headline sales to be flat this month and the underlying trend to remain one of weakness. Higher food prices to again boost core sales, which we expect to increase by 0.4 percent.

> **NZ March quarter CPI** (Tuesday 1045 NZDT). Higher food and petrol prices to see annual inflation remain above the RBNZ's target band. Key focus is on whether non-tradable inflation reverses recent surprises on the downside. We expect headline inflation to increase by 0.8 percent, and non-tradable inflation by 1.0 percent.

What's the view?

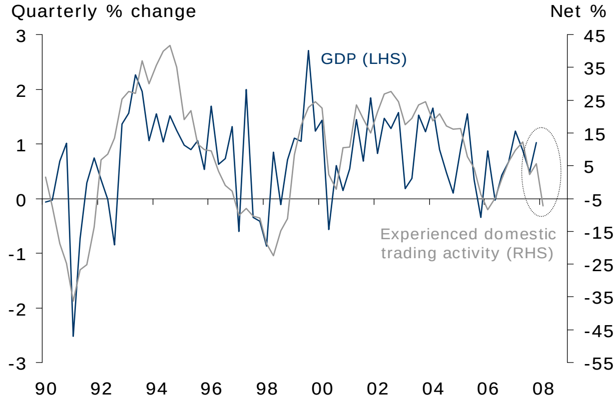
First up, congratulations to the individuals (and parties) involved in negotiating (and cementing) the free-trade agreement with China. We're often quick to point out inconsistencies and deficiencies in policy decisions, and we hope the criticism is taken in the spirit of how it is intended in terms of independent analysis and debate. The flipside applies when we are in agreement, and well done to all those involved.

While small in scale at present in terms of trade benefits, which tend to be slow to diffuse anyway as resources reallocate, the agreement is a powerful signal in terms of looking to where New Zealand's future resides. Watch for the tourism sector to be the major benefactor as most-favoured-nation status impacts perception and service flows far quicker than a reduction in tariffs on goods.

Back to the domestic data, if any confirmation was needed that the New Zealand economy is set to slow markedly this year, the NZIER Quarterly Survey of Business Opinion (QSBO) for the March quarter provided it in spades. Headline business confidence and domestic trading activity indicators slumped to their lowest levels since 1974 and 1998 respectively, and is pointing towards a negative GDP read in either Q1 or Q2 (and potentially even both, though this is not our core view at present). At best, growth looks flat.

Investment and employment intentions also fell, which is unsurprising when firms are facing a large squeeze on profitability from rising cost pressures. Coming on the heels of the decline in firms' own activity expectations to 1991 levels in the National Bank *Business Outlook* survey, along with consumer confidence (McDermott Miller) dipping to levels seen in 1998, the economy now looks to be stagnant. Official data is going to take on an ugly tone if readings in these typically very reliable surveys are correct. The currency will remain vulnerable given poor readings on the economy.

GDP vs QSBO domestic trading activity

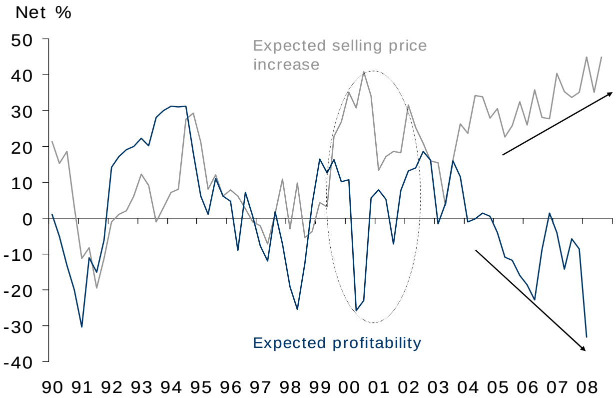


Sources: ANZ National, Statistics NZ, NZIER

Despite downbeat activity expectations in the QSBO, capacity utilisation rose to a record high and pricing intentions spiked higher. This is pointing towards a very uncomfortable growth/inflation mix and presents a real conundrum for the Reserve Bank, and some challenges for the equity market as well! We suspect that part of the explanation for the rise in capacity utilisation is due to meat processing plants running overtime as livestock slaughter is brought forward due to dry weather conditions. If so, then we can expect this to unwind over coming quarters. Indeed, capacity utilisation for builders and non-exporting manufacturers fell, though remain at elevated levels.

It is the jump in pricing intentions that is more disconcerting, coming at a time when inflation is already above the Reserve Bank's target band. It is further confirmation that a huge pipeline of cost-push inflation is in the system. With this week's Q1 CPI print expected to see the annual headline inflation rise to 3.5 percent, and petrol companies recently increasing pump prices to a new high of $1.829/litre for 91 Octane, the near-term inflation outlook will remain a concern for the Reserve Bank.

QSBO expected profitability and selling prices



Sources: ANZ National, Statistics NZ, NZIER

Yet we can't but help feel the jump in pricing intentions in part is a direct consequence of receding profitability. With volume growth beginning to diminish (or collapse as illustrated by the sharp fall in firms' domestic trading activity measures) firms are looking at playing the price card to recoup some of that lost ground.

Will it succeed? No. To answer yes is akin to saying the whole monetary policy framework has become unhinged for we'd be back in the bad old days where any cost increase was passed on to consumers. But clearly businesses are going to try it on (you can't blame them given the additional regulatory charges they are being loaded with). Certainly the strategy will be successful in pockets where there is less competition.

With businesses facing a demand wall, the ability to recoup higher input costs will be capped. This is the reality of living in a low inflation environment where inflation expectations are well anchored. Sure, at 2.7 percent 2-years ahead, inflation expectations are elevated, although we note that they are in fact below where they reside across our major trading partners. Moreover, the last time the economy was slowing like this, inflation expectations were worse. In an absolute sense they were lower at 2 percent. But back in 1996/97 the Policy Targets Agreement defined inflation stability as zero to two percent. Achieving this meant inflation expectations needed to be lower.

The problem is there is a sizeable lag between growth receding (an optimistic term considering what we are seeing at present), and the same occurring on the inflation front of roughly a year, so in the meantime the disinflation talk needs to remain tough. As the Governor noted last week, "*wage-bargaining parties should not assume that tight labour market conditions will continue as the economy slows.*"

A couple of things struck us in terms of the Governor's comments last week (given to a business group in Marlborough). First was explicit recognition growth was slowing markedly. Second, was reference to reduced credit availability. Such terminology was very absent from the March *Statement*, so clearly the Reserve Bank's underlying position on the economy has (rightly) changed. The tenor of April's *OCR Review* will be closely perused. We can't but help feel there was also a bit of wanting your cake and eating it too, along with a dash of cream on top for good measure. The Reserve Bank wants (needs) a slowdown, but looks to be potentially becoming concerned over the speed of the deceleration.

There seems a lot of talk at present over the economy's sound fundamentals, and how that will stand New Zealand in good stead. Low government debt, a low unemployment rate and strong commodity prices are most often cited. We agree with the spirit of what is being said, although the way in which it is being used in some circumstances stretches things a bit.

> Good "fundamentals" do not stop "cyclical" corrections, which is precisely what is happening at present. Sure they can dampen the "adjustment" required, although given an 8 percent current account deficit and high inflation, a soft landing was never going to suffice. Moreover, the unemployment rate is always the last cab off the rank. Last week's announced rise in the dairy payout (from $6.90/kg milk solid to $7.30) represents another shot in the arm for the economy, and illustrates the significant role higher international food prices are playing. Although when you look at farm values and the current account deficit, this good news story is well and truly already factored in. Arguably, strength in the fiscal position has merely offset weakness in the household balance sheet arena. There may be a fair degree of causality between the two considering the combination of rising tax bracket creep, and additional government charges households have had to cope with.

> The most important fundamental for any nation is productivity growth. It's hardly ever mentioned. Little wonder considering we score poorly. As we've noted regularly, the rate of productivity growth across the market sector has halved in this decade relative to the preceding one.

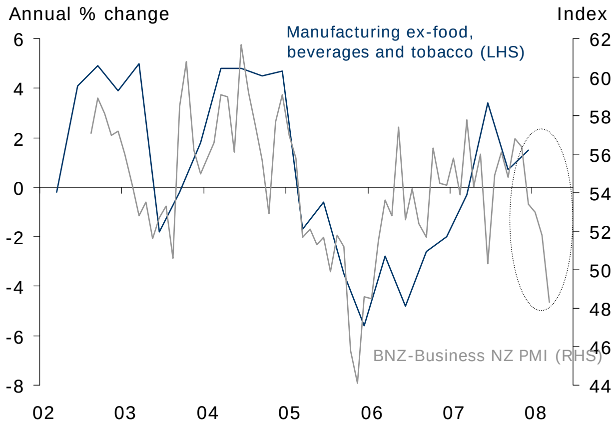
So beware the snake oil being delivered at present. True, what New Zealand is facing is nothing more than a standard end to the business cycle, although as we've repeatedly noted, the household de-leveraging aspect of it suggests the adjustment will last far longer and into 2009. Yet, the seeds for the next upswing need to be sown by productivity growth (which leads the cycle), and this is where attention needs to be focused. If we continue on the current path on the productivity front, economic performance will be anaemic, irrespective of good fundamentals such as low debt and high commodity prices.

Looking at other data, the REINZ housing market report for March showed a considerable drop in monthly sales. On a seasonally adjusted basis, the number of house sales fell a whopping 31 percent compared with February and are down 53 percent on a year ago. The effect of Easter falling in March (fewer days) this year would have biased the number downwards. However, even accounting for this, the underlying house sales number was still weak. In fact, it is the lowest since 1991. Considering the total stock of houses has risen since then, this makes the March sales figure even weaker.

One surprise in the data was the sharp surge in the median sale price over the month, rising $11,500 to $349,500. This increase was driven by a change in the mix of properties sold (with a sharp drop in sales of lower-valued properties) so it is hardly anything to get exited about. We also noticed a dip in the median days to sell (from 45 to 42 days seasonally adjusted) which is more encouraging, although we suspect this will be due to good quality stock being snapped up, and a huge glut of others remaining. Looking through this, there was nothing in the data that altered our assessment that the housing market is very weak. We doubt the increase in the median house price this month will be sustained, particularly with the Barfoot data released two weeks ago showing an increasing number of properties on the market. With demand still weak and inventory levels showing close to 12 months worth of supply (based on Barfoot data), prices still have to adjust downwards in order for the market to clear.

The other piece of domestic data last week was the Bank of New Zealand-Business NZ PMI. While it tends to be volatile and the time series is not sufficiently long enough to provide a reasonable lead on manufacturing activity at this stage, the magnitude and consistency of the declines over recent months has caught our attention. It may be no surprise that manufacturers are under pressure from a high NZD and rising costs. But the decline in the PMI points to possibly quite a severe contraction in manufacturing (ex food, beverage and tobacco) GDP over the coming quarters. As it accounts for 9 percent of total GDP, this is no trivial matter. If such an outcome does eventuate, it remains to be seen if capacity utilisation will remain high in coming quarters.

Manufacturing GDP and PMI



Sources: ANZ National, Statistics NZ, Business NZ

Turning to offshore developments, financial markets remain choppy and the USD continues to come under downward pressure. With oil prices hitting a fresh record high over US$112/bbl following a bullish oil inventory report, the overall earnings environment is set to be a very challenging one for corporates. While the prevailing view at present is that the worst of the credit crisis is over, the real effects are only starting to be felt. We are starting to see earnings downgrades from bellwether firms such as UPS (the world's largest package delivery company), Carrefour (the second largest retailer in the world) and GE. While global growth outside of the US and Europe appear to be holding up well, ultimately the de-leveraging that is occurring across the financial sector must be matched by the same in the real economy.

To this end, the magnitude of the downward revisions to the IMF's latest forecasts contained in their *World Economic Outlook* took us by surprise. In the past, the IMF's forecasts tend to lag private sector forecasters in terms of revisions. Not this time. The IMF has slashed their US growth forecast for 2008 and 2009 to 0.5 and 0.6 percent respectively – essentially predicting that the world's largest economy will be in recession and effectively stay that way for a while. And while the Fund still sees above-trend growth for emerging economies, they also see a 25 percent chance that the global economy will enter a recession. While we have written before that the household de-leveraging process which is occurring at the moment will be a more drawn out affair and result in a period of subdued growth, the IMF is taking an even more sombre view.

An international organisation such as the IMF tend to be conservative in their assessments. As such, when they are so downbeat, we must take notice – and so must the Reserve Bank. The Reserve Bank continues to see limited effect from financial market disruption on the economies of New Zealand's major trading partners with the exception of the US. But comparing the IMF's latest growth forecasts against the Reserve Bank's March assumption show a material divergence in the outlook, particularly for 2009.

	RBNZ March MPS Assumption		IMF April World Economic Outlook	
	2008	2009	2008	2009
US	1.6	2.6	0.5	0.6
UK	1.7	2.0	1.6	1.6
Eurozone	1.6	1.9	1.4	1.2
Australia	3.5	3.3	3.4	2.8
Japan	1.4	1.9	1.4	1.5
Asia ex-Japan*	6.7	6.8	6.7	6.6
Major NZ TPG	**3.2**	**3.5**	**2.9**	**2.7**

* *IMF forecasts for emerging and developing economies.*

Ultimately, it is the elevated inflation picture that is limiting the Reserve Bank's ability to respond in a pre-emptive fashion to a growing list of downside risks. But our wariness towards the role that the global credit and growth environment will play leaves us continuing to err towards an end of year easing cycle, though we acknowledge that the hurdle to justify lower rates is high. The uncomfortable growth/inflation mix suggests the Reserve Bank could be forced to remain on hold for longer, but the easing profile will be more aggressive when it does start.

Moving to the data this week, the themes present in the QSBO survey are likely to be reinforced. That being soft domestic demand, but still elevated inflationary pressures. The February retail sales survey is expected to show total sales flat over the month, following increases of just 0.1 percent and 0.3 percent in December and January respectively. However, if motor vehicle components are stripped out, "core" sales are expected to increase by 0.4 percent. Nevertheless, a weak underlying trend is clearly present. If recent food price increases are accounted for, this trend looks even weaker.

The other big release this week is the March quarter CPI. This is shaping as a watershed release for the Reserve Bank. As mentioned above, we expect the headline CPI to increase by 0.8 percent, taking annual inflation to 3.5 percent. Food and petrol price increases are major contributors. However, what we will be mostly watching is whether non-tradable inflation reverses recent surprises on the downside. We expect it to print at 1.0 percent – reinforcing the persistent level of inflationary pressures still evident.

Offshore it is an important week also. There are CPI releases in UK, Europe and the US, as well as a number of Federal Reserve officials speaking. The Fed is also due to release their Beige Book, which is a summary of regional economic views, and the Q1 earnings reporting season continues and will be critical to watch.

Recent data…

> **NZIER QSBO (March quarter).** Headline confidence and firms' expected domestic trading activity fell sharply as did investment, employment and profit expectations. Capacity utilisation and pricing expectations rose.

> **BNZ Business NZ Manufacturing PMI (March).** The index fell 3.5 points to 48.3.

> **REINZ Housing Report (March).** House sales fell by 30.7 percent on a seasonally adjusted basis compared with February. The median house price rose by $11,500 to $349,500. However, this is likely a result of a change in the composition of properties sold.

> **Roy Morgan Consumer Confidence (early April).** The index fell 6.9 points to 99.7 – the first time it has fallen below 100 since it began in early 2004.

INFLATION CYCLES

Looking at the two previous inflation cycles, we know that it lags growth by a year, tends to turn aggressively, and the non-tradable components to turn first have been household and vehicle servicing. However, ultimately the labour market continues to hold the key to the timing of the easing cycle and particularly given stronger inflationary pressure from non-contestable areas over this cycle relative to previous.

The economy looks decidedly weaker than the Reserve Bank was expecting a month ago. The previous two economic slowdowns tell us that slower growth should eventually result in less non-tradable inflation pressure. **Can we use these previous cycles as a guide to what may occur this time?**

We examine some of the trends in the components of non-tradable inflation over 1991-93 and 1996-99. We have to be careful about making sweeping assessments as the data is volatile on a quarterly basis and one-offs have impacted. But the findings are interesting nonetheless, and could be an indication of how the current inflation dynamic could play out.

Some of the key observations we note are:

> **Non-tradable inflation turns quickly.** At the start of 1992, annual non-tradable inflation was running at 4½ percent. One year later, it was at 1.0 percent. Likewise, at the end of 1997 non-tradable inflation was over 3½ percent, and was below 1½ twelve months later.

> **It also tends to lag the economy by around 12 months.** The economy entered a technical recession in the March and June quarters of 1991 and non-tradable inflation experienced its weakest profile over 1992. During the 1997/98 slowdown, non-tradable inflation was weakest in December 1998 and March 1999, again around 12 months after the economy entered a recession.

> **There appears to be some key early warning indicators.** Household services prices, which includes things like cleaning, repairs to appliances and delivery and removal services, turned sharply and early on in both periods. So too did vehicle servicing and repairs prices. In both periods, the unemployment rate was already on an upward trend.

> **Housing components softened in line with housing market developments.** House prices began falling over the latter parts of 1990 and also over the first half of 1998. In both cases, in the space of two quarters following this, construction prices in the CPI (the price of purchasing and constructing a new dwelling) were falling as were the expenses associated with purchasing a home. Dwelling maintenance services contracted sharply over 1991, and rents were soft in both periods.

> **Some service prices turned earlier than others.** Services prices on the whole were typically not far behind the housing components of the CPI and arguably turned first over the 1997/98 episode. As mentioned above, household services prices turned early as did vehicle servicing and repairs prices. However, other services components, such as personal services (which include hairdressing), restaurant meal prices and leisure and recreational services prices, were slower to turn. In the case of the latter, they did not appear to slow at all over the 1997/98 period.

> **There was not a real persistent trend of consistent one-offs adding to inflation pressure.** Compare this with now, where the combination of rising energy charges, rates, other pending emissions obligations, etc, are adding a persistent base to the overall inflation dynamic.

Implications

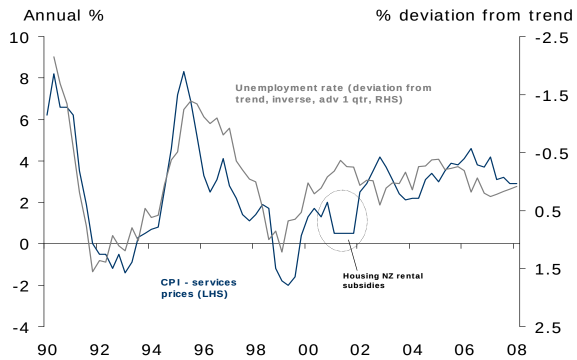
We struggle to see housing components of the CPI staying high in the current weak housing market environment. House prices have been falling since the end of last year and we are expecting further softness ahead given the high level of unsold homes on the market. The previous two slowdowns tell us that it does not take long for housing components in the CPI (such as construction prices) to also begin to turn. Both suggest that softer outturns could be experienced over the second half of 2008. The one sticking point this cycle could be rents. Unlike previous housing cycles, the excess this time around resides in the stock of land as opposed to the number of dwellings. Rent prices could continue to push upwards.

We likewise expect the growth dynamic to dominate in other key areas including services such as household and vehicle servicing.

However, with a stronger amount of inflation emanating from non-contestable areas (energy, rates etc.) relative to previous cycles, the disinflationary dynamic coming from contestable pockets of the economy needs to be stronger than previously.

Ultimately the labour market continues to hold the key to the timing of the easing cycle as it represents the half-way house between the real side of the economy and medium-term inflation pressure. If lower readings from employment intentions turn out to be correct, the June HLFS (due 7 August) is shaping up as a watershed release in this regard.

Unemployment rate and services prices



Sources: ANZ National, Statistics NZ

1991-93 quarterly % changes	Mar-90	Jun-90	Sep-90	Dec-90	Mar-91	Jun-91	Sep-91	Dec-91	Mar-92	Jun-92	Sep-92	Dec-92	Mar-93	Jun-93	Sep-93	Dec-93
GDP	**-0.1**	**0.0**	**0.7**	**1.0**	**-2.5**	**-0.7**	**0.3**	**0.7**	**0.3**	**0.0**	**-0.9**	**1.4**	**1.6**	**2.3**	**2.0**	**1.1**
Non-tradable inflation	**1.4**	**2.4**	**1.3**	**0.9**	**1.5**	**0.7**	**1.5**	**0.6**	**1.5**	**0.2**	**0.1**	**0.4**	**0.2**	**0.5**	**0.7**	**0.5**
Restaurant meals	1.4	1.3	1.3	0.7	1.4	0.5	0.1	0.1	0.1	0.6	0.2	0.3	0.0	0.3	0.2	-0.1
Rented dwellings	1.1	1.8	1.6	1.2	0.4	0.3	1.3	-1.4	0.1	0.4	0.3	0.0	1.0	1.1	1.4	1.1
Purchase and construction of new dwellings	2.5	1.6	1.6	0.1	0.5	-0.1	-0.8	0.0	-0.3	0.5	-0.1	1.3	0.5	1.3	1.3	1.8
Expenses of dwelling purchase	2.0	2.5	2.2	1.1	0.9	0.4	-1.2	-1.0	0.3	-0.3	0.0	-0.1	0.9	0.5	0.9	-0.5
Dwelling maintenance services	2.2	1.9	0.6	0.8	0.6	-0.7	-0.7	-0.5	-0.7	-0.2	0.2	0.4	0.1	0.4	-0.1	0.7
Household services	1.3	-0.1	0.1	0.9	3.2	-3.3	3.9	-1.3	1.1	-0.2	-0.4	0.3	0.3	-1.1	0.4	-0.7
Vehicle servicing and repairs	0.8	1.0	-0.1	-0.6	0.8	1.3	-0.7	-1.2	0.1	0.7	1.3	0.6	0.9	0.7	0.5	0.2
Personal services	1.2	1.0	1.3	2.2	1.0	0.6	-0.1	0.7	0.3	0.7	0.3	0.0	-0.3	0.1	1.5	0.2
Leisure and recreation services	2.3	0.7	0.8	1.4	1.0	0.7	1.9	0.1	0.7	0.9	0.0	0.9	-0.4	1.3	-0.6	1.4
Childcare	1.0	5.6	0.1	0.5	1.0	1.3	0.9	0.5	-0.2	0.6	0.2	1.4	0.4	0.1	0.5	1.2
Services	1.6	2.6	1.3	1.0	1.2	0.0	-0.3	-0.9	0.7	0.0	-0.9	-0.3	-0.1	0.4	0.3	0.0

1996-99 quarterly % changes	Mar-96	Jun-96	Sep-96	Dec-96	Mar-97	Jun-97	Sep-97	Dec-97	Mar-98	Jun-98	Sep-98	Dec-98	Mar-99	Jun-99	Sep-99	Dec-99
GDP	**1.7**	**0.6**	**0.7**	**1.3**	**-0.6**	**2.0**	**-0.3**	**-0.4**	**-0.9**	**0.9**	**-0.1**	**0.7**	**1.1**	**1.0**	**2.7**	**1.2**
Non-tradable inflation	**1.6**	**1.1**	**0.8**	**0.9**	**0.9**	**0.7**	**1.2**	**0.8**	**0.4**	**0.6**	**0.7**	**-0.2**	**0.3**	**0.9**	**0.7**	**0.1**
Restaurant meals	0.5	0.3	0.2	0.3	0.6	0.4	1.0	0.5	0.5	0.1	0.6	0.3	0.0	0.5	0.2	0.8
Rented dwellings	1.6	0.5	1.6	0.9	0.8	1.0	1.8	0.5	0.6	0.8	0.5	-0.7	-1.6	0.1	0.7	0.0
Purchase and construction of new dwellings	1.9	2.5	0.0	0.4	0.3	1.0	1.5	1.3	0.5	1.2	-1.8	-1.7	-1.4	0.2	0.3	0.6
Expenses of dwelling purchase	2.9	2.5	1.0	0.4	1.6	1.0	1.6	0.2	1.5	-0.2	-1.4	-2.0	1.1	1.8	0.1	0.3
Dwelling maintenance services	0.5	0.5	0.6	0.6	0.6	0.2	0.6	1.0	0.4	-0.1	0.4	0.6	1.2	0.9	0.5	1.0
Household services	1.1	0.3	0.5	-0.4	0.6	0.6	2.3	-1.1	-3.6	-3.1	2.6	-0.8	1.0	0.2	0.5	-0.3
Vehicle servicing and repairs	0.9	0.6	0.6	0.4	0.4	0.0	0.6	-0.3	-0.1	0.0	-1.1	0.3	0.6	0.3	0.9	0.4
Personal services	1.4	1.1	-0.2	0.6	0.0	0.5	0.6	-0.4	0.7	0.0	1.2	0.3	0.8	-1.7	0.3	0.4
Leisure and recreation services	0.8	0.4	2.9	-0.3	1.4	0.2	2.5	1.5	0.0	2.3	1.6	1.6	0.8	1.0	1.5	-0.1
Childcare	2.2	0.0	1.0	-0.4	1.9	2.3	-0.1	0.6	1.6	0.2	2.2	0.7	0.6	0.2	1.4	2.5
Services	0.6	0.7	1.3	1.3	-0.6	0.1	0.6	1.0	-0.2	0.6	0.4	-1.9	-0.8	0.4	0.7	0.1

GLOBAL WATCH

We present a table of global data outturns over the past week given the significance of the international backdrop at present. US data remains consistent with the economy entering recession, with consumer confidence at a 26-year low. The UK housing market is soft, with house prices beginning to fall and the Bank of England have reacted by cutting interest rates further. In Asia the data was mixed, with Singaporean GDP rebounded strongly, but Malaysian industrial production slowing.

Country / Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	Consumer Credit (Feb)	$5.9B	$5.2B	$10.3B	Weaker
	Pending Home Sales (Feb) – mom	-1.0%	-1.9%	0.3%	Weaker
	Wholesale Inventories (Feb)	0.5%	1.1%	1.3%	Stronger
	Import Price Index (Mar) – mom	2.0%	2.8%	0.2%	Stronger
	University of Michigan Confidence (Apr P)	69.0	63.2	69.5	Weaker
Europe	Sentix Investor Confidence (Apr)	0.2	4.1	0.4	Stronger
	GDP (4Q F) – qoq	0.4%	0.4%	0.4%	In-line
	ECB Interest Rate Announcement	4.00%	4.00%	4.00%	In-line
	OECD Leading Indicator (Feb)	-	97.4	97.7	-
UK	HBOS Plc House Prices (Mar) – mom	-0.3%	-2.5%	-0.4%	Weaker
	Nationwide Consumer Confidence (Mar)	76	77	78	Stronger
	Industrial Production (Feb) – mom	0.1%	0.3%	-0.1%	Stronger
	BoE Interest Rate Announcement	5.00%	5.00%	5.25%	In-line
Asia Ex-Japan					
Singapore	Advance GDP Estimate (1Q P) – qoq	10.2%	16.9%	-4.8%	Stronger
Philippines	Total Exports (Feb P) – yoy	9.0%	10.7%	6.0%	Stronger
South Korea	Consumer Confidence (Mar)	-	99.7	103.1	-
	Retail Sales (Feb) – yoy	-	7.2%	9.7%	-
	Money Supply – M2 (Feb)	-	13.2%	13.0%	-
	Producer Price Index (Mar) – yoy	-	8.0%	6.8%	
	Bank of Korea Interest Rate Announcement	5.00%	5.00%	5.00%	In-line
Malaysia	Industrial Production (Feb) – yoy	8.2%	6.3%	7.5%	Weaker
Indonesia	Wholesale Price Index (Feb) – yoy	-	23.8%	24.0%	-
	Consumer Confidence Index (Mar)	-	89.9	92.4	-
Thailand	Thai Central Bank Interest Rate Announcement	3.25%	3.25%	3.25%	In-line
	Consumer Confidence (Mar)	-	73.8%	72.6%	-
Japan	Bank of Japan Interest Rate Announcement	0.50%	0.50%	0.50%	In-line
	Machine Orders (Feb) – mom	-14.0%	-12.7%	19.6%	Stronger
	Money Supply M2+CD (Mar) – yoy	2.4%	2.2%	2.3%	Weaker
	Broad Liquidity (Mar) – yoy	3.5%	3.1%	3.5%	Weaker
	Domestic CGPI (Mar) – mom	0.3%	0.5%	0.5%	Stronger
Australia	Exports (Feb) – mom	-	-4.1%	1.6%	-
	Imports (Feb) – mom	-	-0.2%	5.0%	-
	Building Approvals (Feb) – mom	0.0%	0.1%	1.4%	Stronger
	NAB Business Confidence (Mar)	-	-4	-2	-
	Employment Change (Mar)	10k	14.8k	36.7k	Stronger
	Unemployment Rate (Mar)	4.1%	4.1%	4.0%	In-line

INTEREST RATE STRATEGY

Spike up in pricing intentions from the QSBO survey saw strong paying interest emerge. Market now looking for strong Q1 CPI print tomorrow. Receiving interest to emerge once the CPI report is out of the way as focus turns to the weakening growth profile once again.

Market themes...

> NZIER QSBO shows ugly growth/inflation mix.

> NZ rates market selloff on high pricing intentions and strong capacity utilisation reads.

> IMF becomes more bearish on the global growth outlook, particularly for the US.

Review and outlook...

The front end of the NZ yield curve sold off on the back of the NZIER QSBO survey despite confidence and domestic trading activity showing a sharp fall. A rise in the capacity utilisation measure and a spike higher in pricing intentions was what the market latched on to, a sign that the market is well in turn to the RBNZ's inflation concern, despite clear evidence that growth is slowing quite markedly.

For the week, the 1 and 2-year swap yield rose 9 and 8bps respectively, while the longer end (5 to 7-years) was largely unchanged. The largest moves occurred in the very short end, with bank bills selling off as much as 13bps over the week. Market pricing for the start of the easing cycle has been pushed back towards late this year, though close to a 50bp cut by September is still priced in.

Tomorrow's Q1 CPI print will be key. While the growth outlook is deteriorating and will undershoot the RBNZ's expectations, the inflation picture restricts the Bank's ability to respond early. The market is expecting a strong CPI print, so a relief rally could ensue even if the data prints in line with expectations. The non-tradable number is the main area to focus on. A softer than expected print will see the market latch on and run with the number. The CPI data is the last major piece of data prior to the OCR *Review* on 24 April. We will preview this next week, but barring a major surprise in the Q1 CPI, we do not expect the RBNZ to change its stance, with inflation still the predominant concern.

Turning to offshore events, as we noted on page 2, the IMF has reduced their growth forecasts markedly. It remains to be seen whether our major trading partners will slow to the extent that the IMF is forecasting, but the direction of risks is clear. This week is a big one on the data front, with CPI reads from US, UK and EU expected. We also get retail sales and housing data from the US, along with the Philly Fed, Beige Book and numerous Fed speeches. UK employment and BoJ minutes are other key events to watch. The main theme offshore remains whether US weakness is extending to other economies, particularly in Asia, and whether inflation pressures will limit central banks' ability to aggressively respond.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔	Lack of inflation headroom means their hands are tied.
NZ data	↔	Q1 CPI to reinforce RBNZ's inflation dilemma.
Fed Funds/front end	↔/↓	Market looking for more cuts but may be getting close to the end.
RBA	↔	On hold but economy still set to get a large terms of trade boost.
US 10 year	↔/↓	Growth concerns still winning over inflation concerns for now.
NZ swap curve	↔/↓	Curve should normalise with issuance the key driver.
Flow	↔	Market waiting for Q1 CPI to establish entry levels to receive swap.
Technicals	↔/↓	Q1 real data prints for NZ to show consistently bearish undertones. Data remains key for next directional move.

Borrowing strategies we favour at present

Our strategy remains unchanged – pay the 18 months to 2-year, and for those with existing portfolios and whose durations are beyond 3 years to shorten duration. Weak NZ data mean the mid-points of the curve should outperform as investors look to obtain duration that covers multiple potential rate cuts. Our preference remains to keep borrowing short, no longer than two years.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 24-Apr-08	-1	-1
Thu 5-Jun-08	-29	-7
Thu 24-Jul-08	-49	-27
Thu 11-Sep-08	-63	-55
Thu 23-Oct-08	-131	-87
Thu 4-Dec-08	-223	-187
Thu 15-Jan-09	-223	-187

Trading themes we favour at present

Our core strategy is to receive the belly of the swaps curve (3 to 5 year) and go long March bank bills. As an insurance against the RBNZ being on hold for longer, we suggest paying the 1-year and going short the Sept bank bills. We remain of the view that the easing cycle may be delayed, but once it starts, it will be aggressive.

CURRENCY STRATEGY

The NZD remains vulnerable given the domestic growth picture, and we continue to suspect we may be seeing the start of a sharp and sizeable move lower. With the US and global economy being widely acknowledged as more fragile, and the USD now looking supported post G7, attention may well turn to commodity prices.

Market themes…

> Domestic headwinds weighing on the NZD.

> G7 language change: *"…concerned [over currency] about the possible implications for economic and financial stability…monitor exchange markets closely and cooperate as appropriate."*

> Local CPI data important this week.

Review and outlook…

The NZD remains vulnerable to moves lower given readings that are emerging on the economy. Markets like to run in trends and the trend or bias coming out of readings on the NZ economy continues to print poorly. Indeed, if readings from leading gauges are correct, momentum has stalled and the economy may well be moving backward. It's hard to put a positive spin on the bird in that environment, irrespective of the support being provided by the yield differential.

Key to watch over the coming week is the USD. The G7 somewhat surprised over the weekend with reasonably strong rhetoric on two levels. First, how fragile the global economic picture is – a theme the IMF showed in their latest projections as well. Second, that they will continue to *"cooperate as appropriate"*, in regard to exchange markets.

The EUR/USD has opened sharply lower this morning as we write, with the USD finding a base. If this continues, attention over the week will likely turn to commodity prices. With as much as 20 percent of commodity price strength being put down to a speculative element, any bout of renewed USD strength could flow through sharply.

Beyond that, equities remain the key directional bellwether across currency markets. Friday's movement in the DJIA, and earnings dip from GE are confirmation that the economic picture is deteriorating sharply, as signalled by leading indicators. However, the real challenge across equity markets is the signals being provided for earnings given the mix of receding growth and commodity price inflation. Earnings and stocks will remain vulnerable to downgrades and disappointment in this environment. While liquidity remains ample, such liquidity will not be put to work until valuations reach more attractive levels.

Moving to the local data this week, February retail sales should reinforce the slowing domestic environment. However, this may play second fiddle to developments surrounding the USD. The key release is the Q1 CPI on Tuesday. It should illustrate persistent inflationary pressures within the economy and the difficult job the RBNZ has on its hands. Critical to watch will be the non-tradable print to see if the previous two downward surprises are sustained.

In international data, CPI releases in US, UK and Europe will be important as will the Fed's Beige Book. But as mentioned above, it is equities that are driving currency sentiment and therefore the US Q1 earnings reporting session remains key.

Technically the NZD is back in the support zone of the uptrend with multiple lines of support coming from 0.7880 to 0.7780. A break of the later would suggest a medium-term top is in place and we would switch from a "buying dips" to a "selling rally" mentality. NZD/AUD at 0.8500 is a clearer major support line and a break of this support would indeed confirm NZD/USD top in place.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↓	Yield spreads narrowing
Commodities	↔/↓	Gold prices recovered last week.
Partial indicators	↔/↓	Better across the Tasman.
Technicals	↔	Major support at 0.8500.
Sentiment	↓	NZD is not a better credit risk than AUD.
Other	↓	All eyes on commodities and equities.
On balance	↓	**Tests of support likely.**

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	↔/↓	Yield and commodity story factored in. Current account becoming an issue.
Yield	↔	Yield differentials still at phenomenal levels.
Commodities	↓	Still a key one to watch.
Risk aversion	↔	Sentiment slowly returning.
Partial indicators	↔	Both economies weak.
Technicals	↔	Support lines at 0.7780 to 0.7880.
AUD	↔	On key support at 0.8500.
Sentiment	↔/↓	Volumes decreasing in kiwi.
Other	↔	G7 "concerned" over currency volatility.
On balance	↓	**Domestic factors weighing.**

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
14 Apr	**NZ**	**Retail Sales (Feb) – mom**	**0.0%**	**0.3%**	**10:45**
		Retail Sales – Ex Autos (Feb) – mom	**0.3%**	**0.3%**	**10:45**
		Performance of Services Index (Mar)	**-**	**-**	**12:00**
	JN	BoJ Publish Minutes of March 6-7 Board Meeting	-	-	11:50
	AU	Home Loans (Feb)	0.5%	2.3%	13:30
		Investment Lending (Feb)	-	8.3%	13:30
	UK	PPI Input (Mar) – mom	1.9%	1.7%	20:30
		PPI Output (Mar) – mom	0.5%	0.3%	20:30
		PPI Output – Core (Mar) – mom	0.4%	0.2%	20:30
	EU	Industrial Production (Feb) – mom	0.2%	0.9%	21:00
15 Apr	US	Advance Retail Sales (Mar)	0.0%	-0.6%	00:30
		Retail Sales Less Autos (Mar)	0.1%	-0.2%	00:30
		Business Inventories (Feb)	0.6%	0.8%	02:00
		Fed's Warsh Speaks at Economic Policy Forum in New York	-	-	06:30
	EU	ECB's Trichet Speaks in New York	-	-	09:30
	NZ	**CPI (1Q) – qoq**	**0.8%**	**1.2%**	**10:45**
		CPI (1Q) – yoy	**3.5%**	**3.2%**	**10:45**
		Food Prices (Mar) – mom	**-**	**0.8%**	**10:45**
	AU	RBA's Stevens Gives a Speech in Canberra	-	-	14:40
	EU	ECB's Trichet Speaks at a Conference	-	-	18:00
		ZEW Survey (Economic Sentiment) (Apr)	-33.0	-35.0	21:00
	UK	RICS House Price Balance (Mar)	-67.0%	-64.1%	11:01
		CPI (Mar) – mom	0.6%	0.7%	20:30
		CPI (Mar) – yoy	2.6%	2.5%	20:30
		Core CPI (Mar) – yoy	1.3%	1.2%	20:30
		RPI (Mar) – mom	0.5%	0.8%	20:30
		DCLG House Prices (Feb) – yoy	7.4%	8.0%	20:30
	GE	ZEW Survey (Economic Sentiment) (Apr)	-30.0	-32.0	21:00
		ZEW Survey (Current Situation) (Apr)	32.8	32.1	21:00
16 Apr	US	PPI (Mar) – mom	0.6%	0.3%	00:30
		PPI Ex Food & Energy (Mar) – mom	0.2%	0.5%	00:30
		Empire Manufacturing (Apr)	-17.0	-22.2	00:30
		Net Long-Term TIC Flows (Feb)	$60.0B	$62.0B	01:00
		NAHB Housing Market Index (Apr)	20	20	05:00
	EU	ECB's Trichet & Weber Speak in Frankfurt	-	-	03:00
		ECB's Papademos & Tumpel-Gugerell Speak in Athens	-	-	05:30
		ECB's Garganas Speaks in Athens	-	-	18:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
16 Apr cont.	EU	CPI (Mar) – mom	0.9%	0.3%	21:00
		CPI (Mar) – yoy	3.5%	3.3%	21:00
		Core CPI (Mar) – yoy	1.9%	1.8%	21:00
	AU	Westpac Leading Index (Feb) – mom	-	0.0%	12:30
	UK	Claimant Count Rate (Mar)	2.5%	2.5%	20:30
		Jobless Claims Change (Mar)	-1.8k	-2.8k	20:30
		Average Earnings inc bonus (Feb) – 3m/yoy	3.6%	3.7%	20:30
		ILO Unemployment Rate (Feb) – 3mths	5.2%	5.2%	20:30
17 Apr	US	CPI (Mar) – mom	0.3%	0.0%	00:30
		CPI Ex Food & Energy (Mar) – mom	0.2%	0.0%	00:30
		CPI (Mar) – yoy	4.0%	4.0%	00:30
		CPI Ex Food & Energy (Mar) – yoy	2.4%	2.3%	00:30
		Housing Starts (Mar)	1,010k	1,065k	00:30
		Building Permits (Mar)	973k	984k	00:30
		Industrial Production (Mar)	-0.1%	-0.5%	1:15
		Capacity Utilisation (Mar)	80.3%	80.4%	1:15
		Fed's Yellen Speaks on US Outlook in California	-	-	03:45
		Fed's Plosser Speaks on Goals, Monetary Policy in Pennsylvania	-	-	04:30
		Fed's Beige Book Released	-	-	06:00
	AU	Preliminary BoP Imports (Mar) – mom	-	0.3%	13:30
		RBA Foreign Exchange Transactions (Mar)	-	A$343m	13:30
	EU	ECB's Tumpel-Gugerell Speaks in Mannheim	-	-	18:30
		ECB Publishes Monthly Report	-	-	20:00
		Trade Balance (Feb)	-3.5B	-	-10.7B
18 Apr	US	Fed's Kohn Speaks at Conference on Credit Markets	-	-	01:45
		Leading Indictors (Mar)	0.1%	-0.3%	02:00
		Philadelphia Fed (Apr)	-15.0	-17.4	02:00
		Fed's Fisher Speaks in Chicago	-	-	05:45
	AU	Import Price Index (1Q) – qoq	0.5%	0.2%	13:30
		Export Price Index (1Q) – qoq	3.0%	-0.6%	13:30
	JN	Consumer Confidence (Mar)	-	36.4	17:00
	GE	Producer Prices (Mar) – mom	0.5%	0.7%	18:00
	UK	Public Finances (PSNCR) (Mar)	18.0B	2.9B	20:30
		Public Sector Net Borrowing (Mar)	7.8B	2.7B	20:30
		M4 Money Supply (Mar P) – mom	0.5%	0.2%	20:30
		M4 Sterling Lending (Mar P)	15.0B	17.4B	20:30
	EU	Construction Output (Feb) – mom	-	1.6%	21:00
19 Apr	US	Fed's Lacker & Rosengren Speak on Liquidity, Systemic Risk	-	-	00:30

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

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: The data this week should reinforce the challenge facing the RBNZ at present – soft growth, but elevated inflation. Retail sales for February are expected to be weak, with the underlying trend clearly pointing to further weakness. However, Q1 CPI data should illustrate persistent inflationary pressures. Moving beyond this, labour market data in four week's time will be critical for any signs that the market is beginning to turn.

Date	Data/Event	Economic Signal	Comment
Mon 14 Apr (10.45)	Retail sales (Feb)	Ongoing softness	Following fairly soft January retail sales, we expect headline sales to be flat this month and the underlying trend to remain one of weakness. Higher food prices to again inflate the core number.
Tue 15 Apr (10.45)	CPI (Q1)	Too high for comfort	Higher food and petrol prices to see annual inflation remain above the RBNZ's target band. Key focus is on whether non-tradable inflation reverses recent surprises on the downside.
Mon 21 Apr (10.45)	Net migration (Mar)	Lower	Stable arrivals but rising departures to see net migration continue to head lower.
Wed 23 Apr (10.45)	Electronic card transactions (Mar)	Easter effect	Early Easter this year to drag this reading lower.
Thu 24 Apr (09.00)	RBNZ *OCR Review*	Similar themes	With Q1 CPI expected to reinforce inflation issues, we expect the line to be reasonably similar to March. However, with some of the downside growth risks materializing, all will be looking for an ever so slightly softer tone.
Tue 29 Apr (10.45)	Overseas Merchandise Trade (Mar)	Small surplus	The ongoing impact of high dairy prices is expected to contribute to a small monthly surplus in March. This is offset slightly by continued high oil prices.
Tue 29 Apr (15.00)	Credit Growth (Mar)	Soft	Last month's data surprised on the upside slightly. However, this could be a consequence of February having five Fridays (which is when lending typically settles on). The underlying trend should remain soft.
Wed 30 Apr (10.45)	Building Consents Issued	Downwards	Both residential and non-residential consent issuance is trending lower. We expect this to continue. We would not be surprised to see a massive decline in residential consents in the March month given the sharp fall in sentiment across the construction sector in the month.
Wed 30 Apr (15.00)	NBNZ *Business Outlook* (Apr)	-	-
Mon 5 May (10.45)	QES and LCI (Mar qtr)	Still elevated	Wage growth should stay elevated (and near record highs) as a consequence of the lagged impact of a tight labour market.
Mon 5 May (15.00)	ANZ Commodity Price Index (Apr)	-	-
Thu 5 May (10.45)	Household Labour Force Survey (Mar qtr)	Early signs of softness?	Given recent employment intentions have eased we expect employment growth to be relatively soft over the quarter. This should see the unemployment rate tick-up from its record low.
On Balance		**A growth wall but inflation problems**	**Growth indicators are now expected to come in consistently weak, but inflation still problematic.**

SUMMARY OF KEY ECONOMIC FORECASTS

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
GDP (% qoq)	1.2	0.9	0.5	1.0	**0.1**	**-0.2**	**0.1**	**0.2**	**0.3**	**0.4**
GDP (% yoy)	2.3	3.2	3.3	3.7	**2.5**	**1.4**	**1.0**	**0.2**	**0.4**	**1.0**
CPI (% qoq)	0.5	1.0	0.5	1.2	**0.8**	**0.8**	**0.9**	**0.8**	**0.5**	**0.7**
CPI (% yoy)	2.5	2.0	1.8	3.2	**3.5**	**3.2**	**3.6**	**3.2**	**2.9**	**2.8**
Employment (% qoq)	1.2	0.6	-0.3	1.1	**0.2**	**0.1**	**0.1**	**0.2**	**0.1**	**0.2**
Employment (% yoy)	1.7	1.6	1.6	2.5	**1.5**	**1.0**	**1.4**	**0.6**	**0.5**	**0.6**
Unemployment Rate (% sa)	3.7	3.6	3.5	3.4	**3.5**	**3.6**	**3.8**	**4.0**	**4.1**	**4.1**
Current Account (% GDP)	-8.2	-8.1	-8.4	-7.9	**-7.5**	**-6.9**	**-6.6**	**-6.8**	**-6.9**	**-6.9**
Terms of Trade (% qoq)	1.5	0.4	3.7	2.9	**2.0**	**0.0**	**-0.9**	**0.0**	**-1.5**	**-1.2**
Terms of Trade (% yoy)	4.5	2.3	8.4	8.8	**9.3**	**8.8**	**4.0**	**1.1**	**-2.4**	**-3.5**

KEY ECONOMIC INDICATORS

	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Retail Sales (% mom)	-0.4	0.2	0.2	1.1	-0.5	1.8	0.1	0.3	..	..
Retail Sales (% yoy)	4.8	5.7	6.3	4.1	5.8	7.2	5.4	6.3	..	..
Credit Card Billings (% mom)	1.6	0.1	0.8	2.1	-0.5	1.1	0.5	0.1	0.7	..
Credit Card Billings (% yoy)	9.0	7.9	8.5	9.3	7.8	9.5	7.5	8.7	8.1	..
Car Registrations (% mom)	-4.7	7.0	1.1	-6.6	5.6	-3.8	-2.9	10.3	-8.8	-12.8
Car Registrations (% yoy)	-1.5	7.0	10.9	0.1	4.7	2.3	1.4	1.7	1.9	-13.2
Building Consents (% mom)	12.4	-16.1	4.8	-9.3	-5.1	1.3	-4.2	3.2	-6.5	-4.0
Building Consents (% yoy)	32.9	-4.4	-1.9	-15.3	-16.5	-4.1	-6.4	-4.6	-17.9	-20.3
REINZ House Price (% yoy)	12.1	10.4	12.9	12.3	8.0	6.7	4.5	4.0	0.7	1.6
Household Lending Growth (% mom)	1.2	0.8	0.9	0.8	0.9	0.8	0.6	0.7	0.8	..
Household Lending Growth (% yoy)	13.5	13.5	13.4	13.0	12.8	12.6	12.2	11.8	11.5	..
Roy Morgan Consumer Confidence	121.0	121.1	122.4	121.3	122.0	121.9	126.6	121.2	116.0	111.7
NBNZ Business Confidence	-37.2	-38.5	-33.8	-26.5	-12.9	-19.6	-24.9	..	-43.9	-57.9
NBNZ Own Activity Outlook	14.8	12.4	16.7	17.2	20.3	15.7	18.2	..	2.4	-6.4
Trade Balance ($m)	-518	-808	-947	-572	-774	-628	38	-316	258	..
Trade Balance ($m annual)	-6226	-6340	-6336	-6282	-5883	-5691	-5307	-4798	-4413	..
ANZ World Commodity Price Index (% mom)	6.3	4.6	1.4	0.4	1.8	0.8	0.0	-1.4	1.1	2.0
ANZ World Commodity Price Index (% yoy)	29.8	35.1	36.3	35.7	37.8	35.9	30.9	27.4	26.9	26.9
Net Migration (sa)	610	460	720	650	250	470	20	70	170	..
Net Migration (annual)	10078	8966	8730	8309	7517	6588	5491	4799	4643	..

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

SUMMARY OF KEY MARKET FORECASTS

	Actual		Current	Forecast (end month)						
NZ FX rates	Feb-08	Mar-08	14-Apr-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
NZD/USD	0.797	0.801	0.789	0.780	0.740	0.690	0.660	0.640	0.630	0.620
NZD/AUD	0.873	0.867	0.852	0.830	0.804	0.767	0.759	0.762	0.778	0.795
NZD/EUR	0.540	0.517	0.502	0.506	0.490	0.469	0.465	0.464	0.474	0.488
NZD/JPY	85.5	81.0	79.9	79.6	74.0	70.4	69.3	69.1	69.3	70.1
NZD/GBP	0.406	0.400	0.401	0.390	0.379	0.359	0.349	0.344	0.342	0.341
NZ$ TWI	73.0	71.5	70.3	69.6	66.6	63.0	61.6	60.9	61.2	61.7
NZ interest rates	Feb-08	Mar-08	14-Apr-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
OCR	8.40	8.67	8.25	8.25	8.00	7.50	7.00	6.75	6.75	6.75
90 day bill	8.82	8.90	8.87	8.80	8.40	7.70	7.10	7.00	7.00	7.00
10 year bond	6.40	6.36	6.47	6.60	6.30	5.80	5.40	5.40	5.30	5.20
International	Feb-08	Mar-08	14-Apr-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
US Fed funds	3.00	3.00	2.25	1.75	1.50	1.50	1.50	1.50	2.00	2.50
US 3-mth	3.06	2.87	2.71	2.00	1.75	1.75	1.75	2.00	2.50	3.00
AU cash	7.00	7.25	7.25	7.25	7.25	7.25	7.25	7.25	6.75	6.00
AU 3-mth	7.99	8.09	7.85	8.00	7.90	7.60	7.40	7.10	6.60	5.80

KEY RATES

	11 Mar	7 Apr	8 Apr	9 Apr	10 Apr	11 Apr
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
90 day bank bill	8.92	8.84	8.84	8.88	8.88	8.88
NZGB 07/09	7.10	6.75	6.78	6.79	6.95	6.97
NZGB 11/11	6.75	6.45	6.47	6.47	6.65	6.69
NZGB 04/13	6.69	6.46	6.47	6.47	6.51	6.57
NZGB 12/17	6.33	6.48	6.49	6.48	6.49	6.47
2 year swap	8.42	8.12	8.25	8.24	8.23	8.22
5 year swap	8.07	7.72	7.83	7.81	7.79	7.77
RBNZ TWI	70.9	70.9	70.9	70.9	70.9	71.0
NZD/USD	0.7906	0.7979	0.7966	0.7954	0.7995	0.7986
NZD/AUD	0.8618	0.8588	0.8571	0.8555	0.8567	0.8564
NZD/JPY	80.44	81.24	81.31	81.39	80.74	81.51
NZD/GBP	0.3941	0.4041	0.4043	0.4046	0.4042	0.4045
NZD/EUR	0.5147	0.5042	0.5053	0.5064	0.5048	0.5068
AUD/USD	0.9174	0.9291	0.9294	0.9297	0.9332	0.9325
EUR/USD	1.5360	1.5825	1.5765	1.5706	1.5839	1.5758
USD/JPY	101.75	101.82	102.07	102.33	100.99	102.07
GBP/USD	2.0061	1.9745	1.9702	1.9659	1.9780	1.9742
Oil	107.90	106.00	108.00	110.89	110.89	110.07
Gold	972.10	918.00	926.00	934.20	931.75	924.00
Electricity (Haywards)	11.38	14.78	12.01	9.43	8.20	12.09
Milk futures (US$/contract)	128	135	137	137	137	136
Baltic Dry Freight Index	8560	7741	7754	7760	7823	7889

Disclaimer

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