

# Market Focus

New Zealand

2 November 2009

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### Page 2: Economic overview

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### Page 5: Economic comment – getting more traction

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### Page 6: Economic comment – NBNZ *Business Outlook* update

- > The messages from the latest National Bank Business Outlook survey are very similar to the previous month. In fact, the inter-month movements were relatively small. Our composite growth indicator (which has a strong correlation with GDP growth) continues to flag 2½ percent growth next year. But it is the non-tradable sector that is still leading the charge, giving an unbalanced and unsustainable feel to the recovery story. While the majority of sectors look set to begin expanding again, it is agriculture and manufacturing that continue to remain the laggards.

### Page 8: Interest rate strategy

- > The RBNZ remains committed to keeping the OCR on hold until the second half of 2010. The market is still pushing for earlier hikes, but this has pushed out to March. Q3 labour market data this week is likely to reinforce the "on hold for some time" view on rates.

### Page 9: Currency strategy

- > The NZD now looks to be in 'sell the rallies' mode as the RBNZ last week showed they were in no rush to tighten monetary policy and the market got caught long as equity markets began to struggle. The latter, and risk appetites in general, will continue to have an important say on currency market direction.

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## ECONOMIC OVERVIEW

We agree with the spirit of the RBNZ's assessment last week and continue to back a low for longer but more aggressive normalisation strategy when the cycle starts. We'll be paying particularly close attention to credit growth and fiscal policy developments over the coming months. Labour market data this week is expected to be weak, although hours worked should add some support to Q3 growth expectations.

### What's ahead?

- > **September quarter Labour Cost Index** (Tuesday 1045 NZDT). We expect private sector ordinary time wage growth of 0.3 percent in the quarter, taking annual growth to 1.8 percent – the softest since June 2001.
- > **September quarter Quarterly Employment Survey** (Tuesday 1045 NZDT). This alternative measure of private sector wages is expected to rise by 0.5 percent in the quarter.
- > **October ANZ Commodity Price Index** (Tuesday 1500 NZDT).
- > **Fonterra online DairyTrade auction results** (Wednesday morning NZDT). With increases of over 65 percent since July, logic would suggest a pull-back is pending. However, anecdotes continue to be received of improving demand and of price rises, so further gains cannot be ruled out.
- > **Financial Statements of the Government for the three months ended September** (Wednesday 1000 NZDT). The fiscal accounts are expected to remain under pressure.
- > **September quarter Household Labour Force Survey** (Thursday 1045 NZDT). Another weak report, but not as weak as last quarter. Employment is expected to contract by 0.2 percent and the unemployment rate to rise to 6.3 percent.

### What's the view?

Firstly, we'd like to acknowledge what we believe was a sensible and well balanced statement by the RBNZ last week. The OCR was left unchanged – this was never really up for debate. But the accompanying statement struck a good balance between recognising the improvements in economic prospects both locally and offshore, but at the same time highlighting concerns over the medium-term picture and the challenges still present. This is a story we have a lot of sympathy for. **We remain comfortable with our expectation of a September start to the tightening cycle.** This is later than the market and consensus, but our view is also

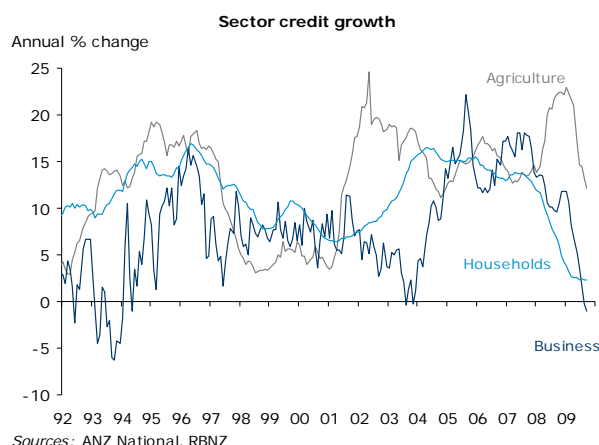
anchored on the first series of moves being 50 basis points as opposed to 25s.

**From a macro perspective, we continue to monitor both structural and cyclical gauges.**

Last week's data showed continued firming in the latter. But it is the former that must not be overlooked. This presents some "issues" for monetary policy, because supportive monetary policy is required given the outlook. Yet this risks the housing market over-responding to the supportive setting, and too much domestic centric growth will simply worsen imbalances, such as the current account deficit. In fact, one of the reasons NZ navigated the global recession so well was ironically because the RBNZ moved aggressively late in the last tightening cycle to stop such imbalances building further. Moreover, stopping the build-up of imbalances is one reason the RBA has moved early.

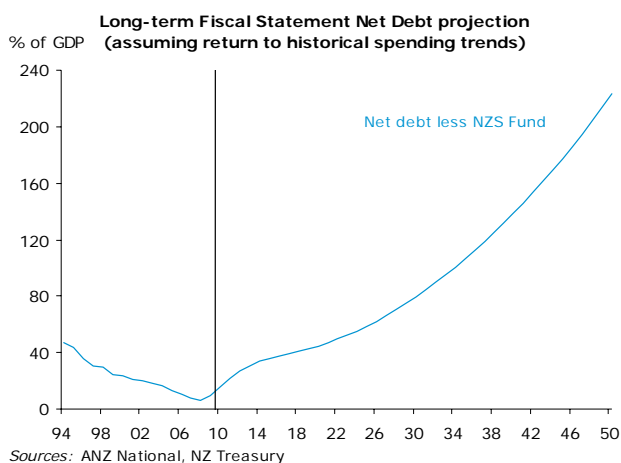
**At this juncture we have to acknowledge a few key points:**

- > **Deposit rates moved up again last week, particularly for longer-dated deposits.** This portends of continued rises in fixed lending rates and a steeper yield curve. More people will continue to shorten the duration of their borrowing, which gives the RBNZ a lot more scope (and comfort) to run a strategy of low for longer but aggressive moves up when required.
- > **Credit growth remains subdued.** In September, household lending rose by only 0.2 percent in the month. In fact, consumer lending is down 5.6 percent on a year ago – hardly consistent with a return to our old habits just yet. It is clear that de-leveraging is continuing across the whole economy and while new lending is still taking place, there are also a number who are taking the opportunity to pay back debt. It is this de-leveraging that remains a key pillar of our core economic views. **Going forward, we see credit growth as a key indicator to watch, particularly relative to some benchmark such as potential (nominal) GDP.**



> **There is more than one way to skin a cat.** The potential for imbalances to return is something we remain mindful of – you do not change behaviour overnight (especially NZ's fixation with housing). We suspect globally the process of change will end up involving an element of tough love – at some juncture. **But as we detailed in last week's Market Focus, the RBNZ Governor indicated that they would look at other options if rising credit growth started to increase concerns over imbalances** stating *"We would certainly be talking to banks about credit conditions and requirements before that happened."*

**We also continue to monitor fiscal policy developments in relation to its interaction with monetary policy.** The Treasury released their Long-term Fiscal Statement last week – which by-and-large went under the radar. Within this statement, the challenges to the Government's fiscal position are clear – if government spending returns to historical trends, net debt is forecast to rise to over 220 percent of GDP by 2050! Of course, these numbers can be discounted by the fact that there is a significant amount of uncertainty with this type of modelling. But the messages are simple: changes are required across the delivery of core government services, and the earlier you move – even in small steps, the smaller the burden. This will involve a shift from the government's balance sheet to households – at a time when households are trying to de-leverage. Hence, we see fiscal policy moving towards a contractionary stance as being influential on the outlook for monetary policy and the economy.



**Sticking with this fiscal theme, the Government's Financial Statements for the three months to September this week should reinforce the need for consolidation.** The year-end June accounts showed a larger deterioration than expected in the May *Budget*. Tax receipts for July and August released at the same time also showed the tax take remaining under pressure (volatility and timing effects aside) and we expect

that to be repeated in the September numbers. We normally don't pay much attention to the *December Economic and Fiscal Update* and the *Budget Policy Statement* (due around mid-December). But what it flags for the 2010 *Budget* and how the process of fiscal consolidation will take place, is shaping up as reasonably important.

**The labour market is the other major focus this week and will show a further deterioration.** The 24,000 increase in the number of unemployed (or the one percentage point increase in the unemployment rate) in Q2 was the largest in the history of the HLFS. The extent of the economic slowdown and pressure on profits has clearly forced businesses to respond. In fact, with hours work tumbling 1.9 percent and over a fifth of part-time workers wanting to work more hours (encouragingly highlighting employer flexibility), the results were arguably even weaker than the rise in unemployment suggests. Businesses have looked at other ways (other than job losses) to adjust staffing requirements. Volatility aside, we expect these themes to have been repeated in Q3.

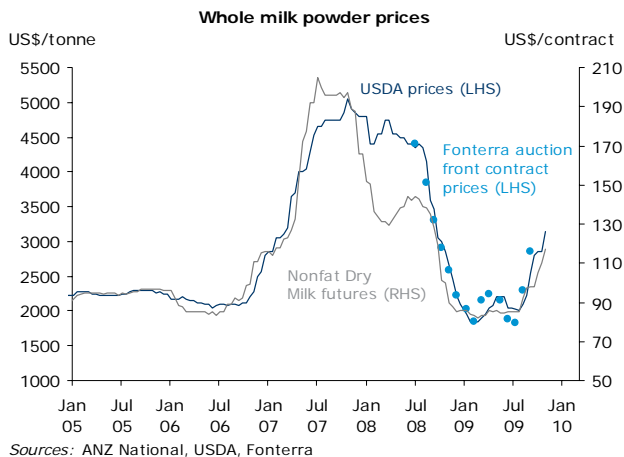
**But the pace of deterioration is unlikely to be as sharp.** Unemployment benefit numbers, while still rising, rose by only 7k (seasonally adjusted) in Q3 (the numbers showed a slowing rate of deterioration as the quarter progressed), compared with 14k in Q2. In addition, business opinion surveys are showing that while firms are not yet confident enough to go out and re-employ (with intentions generally flat to modestly positive in a net sense), they are not looking to shed staff to the same degree as they did over early this year. Running against this though, are ongoing anecdotes of job losses and redundancies, including in the public sector. Job ads may have shown an improvement in the past month, but the level remains low.

**We expect the unemployment rate to rise to 6.3 percent, from 6.0 percent in Q2.**

Employment is expected to fall by 0.2 percent – the third consecutive quarterly contraction. The June quarter was notable for reasonable rises in unemployment in rural regions (Waikato, Taranaki, Otago and Southland), and considering the ongoing pressures in these regions, this is a dynamic we expect to continue. Hours worked are expected to rebound, albeit modestly, following a cumulative fall of 3.5 percent since June 2008. Hours worked, as opposed to employment, should provide some guidance that Q3 GDP is back in modestly positive territory.

**Finally, the next results of Fonterra's online DairyTrade auction are also likely to get plenty of attention.** Again, considering the 65 percent increase in prices since July, logic would suggest a pull-back. However, anecdotes suggest further firming. In fact, the latest USDA prices

showed whole-milk powder prices actually rising to an average of US\$3,150/tonne at the end of October. The last Fonterra auction showed prices at just over US\$3,000/tonne so there does appear room for further price increases.



**Offshore this week, central banks are in the spotlight.** The RBA, Fed, ECB and BoE are all scheduled to announce policy decisions. Only the RBA is expected to change interest rates, with a 25bp hike expected. In terms of data, the main releases are the ISM surveys and non-farm payrolls releases in the US.

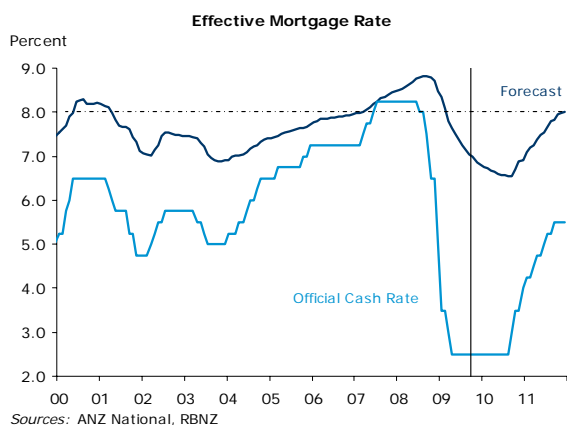
#### Recent local data...

- > **ANZ-Roy Morgan Consumer Confidence (October):** Consumer confidence rose 5.9 points to 125.9 – the highest in 22 months.
- > **NBNZ Business Outlook (October):** Headline confidence eased by a percentage point to a net 48 percent, while own activity expectations eased by a similar magnitude.
- > **Overseas Merchandise Trade (September):** A monthly deficit of \$424 million was recorded, taking the annual deficit to \$1,533 million, from \$2,361 million in August.
- > **Credit Growth (September):** Total household claims rose by a subdued 0.2 percent in the month.
- > **Building Consents Issued (September):** The number of residential consent issued rose 3.3 percent. However, non-residential consent issuance was weak, at \$257 million in the month.

## GETTING MORE TRACTION

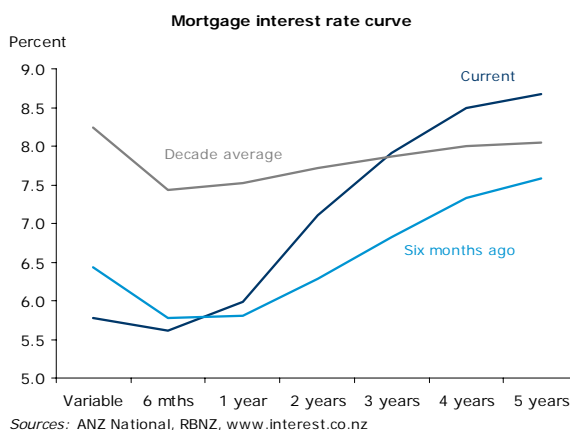
The mortgage curve continues to steepen, encouraging more people into the shorter part of the curve. With a large bulk of household mortgages up for re-pricing over the coming five months, the proportion on floating or short-term fixed rates will rise. This gives monetary policy a lot of traction when the tightening cycle eventually starts.

**Despite the OCR at record lows, the effective mortgage rate faced by households is still higher than previous troughs.** In September, the effective mortgage rate (EMR) fell to 7.05 percent from 7.15 percent in the previous month, still above the 6.9 percent bottom at the end of 2004. However, the lagged impact of the RBNZ's aggressive easing is still flowing through, and we do expect the EMR to continue falling towards 6.5 percent, as those rolling off fixed rate mortgages refinance at lower rates.



**Given the shape of the mortgage curve, more people will opt for the shorter end of the curve.** At present, new fixed mortgage rates of 3-year duration or longer are at levels above their decade average, and are therefore "expensive". The 2-year rate is not that much lower than its decade average (around 60bps below). Furthermore, the steepness of the curve, as measured by the difference between the 5-year rate and the floating rate, is the biggest it has ever been at 290bps.

**Based on our internal data, a quarter of the total fixed rate household mortgages are coming up for re-pricing over the next five months (November 2009 to March 2010).** If this were representative of the nationwide total, then some \$30 billion worth of mortgages are due to be rolled by March 2010. The weighted average rate of those mortgages is 7.5 percent. For those people, there is not much saving to be had from fixing at 2-years, but reasonable savings are on offer at shorter durations.



**Hence, we can expect a greater proportion of mortgages to be on floating or shorter term fixed rates over the coming months.** Currently, 23 percent of all mortgages are floating, and some 38 percent are fixed for 1-year or less (compared to 15 percent and 25 percent respectively in February 2007, just before the last tightening cycle). These percentages are set to increase further, which will give monetary policy more potency. With the mortgage curve expected to stay upward sloping (though it will flatten once the RBNZ starts to hike rates), there is no where for mortgage holders to run, unlike in the previous tightening cycle. Based on our forecasts of the OCR rising from September towards 5.5 percent by Q3 2011, the EMR will rise towards 8 percent. It is not just the level, but the speed at which the EMR changes that will have the greatest impact.

	Outstanding mortgage as at Sep 09 (\$m)	Weighted average rates (%)		Current advertised rates (%) <sup>^</sup>
Floating	36,355	6.21	Floating	5.77
< 1 year	60,070	7.29	6-mth	5.62
1 < 2 year	31,583	7.25	1-year	5.98
2 < 3 year	20,145	7.31	2-year	7.11
3 < 4 year	4,632	8.41	3-year	7.91
4 < 5 year	5,356	6.77	4-year	8.50
5 years +	280	7.79	5-year	8.67

<sup>^</sup> Average headline mortgage rates of the five major banks  
Sources: RBNZ, www.interest.co.nz

### Implications

**The lags in the monetary policy transmission mechanism are becoming shorter given the shape of the yield curve** and with a growing proportion of mortgages on floating or shorter fixed rates. Monetary policy is set to have more potency. This is one reason the RBNZ will have confidence in keeping rates low for a while, to give the economy more time to recover. And it is also why we believe the neutral OCR rate is now closer to 5 percent than 6 percent (regulatory changes to the way banks fund themselves also play a part). **The effective mortgage rate is set to fall further, and those who are re-pricing soon will continue to benefit from interest savings. But once the tightening cycle starts, the impact on consumer spending and on the housing market will be more immediate.**

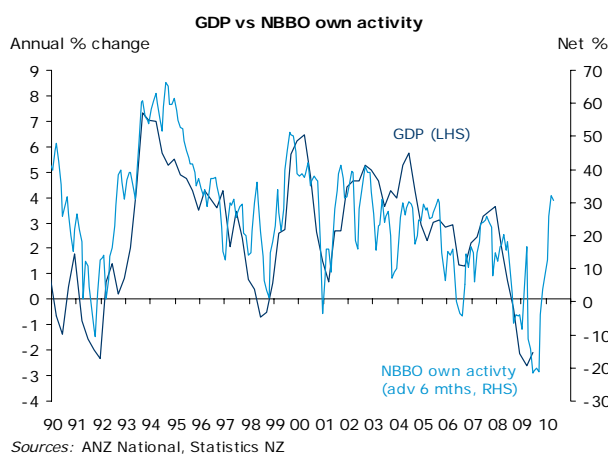
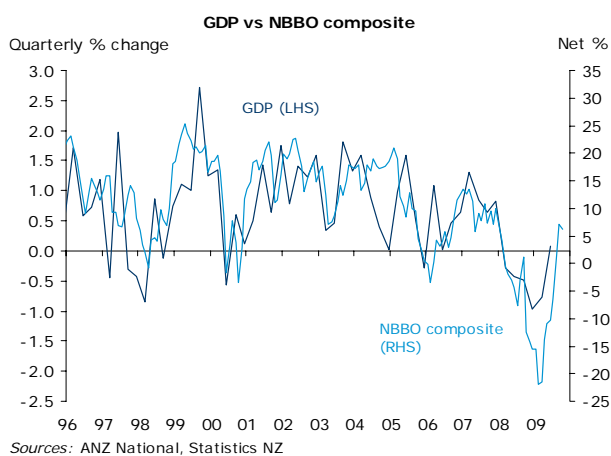
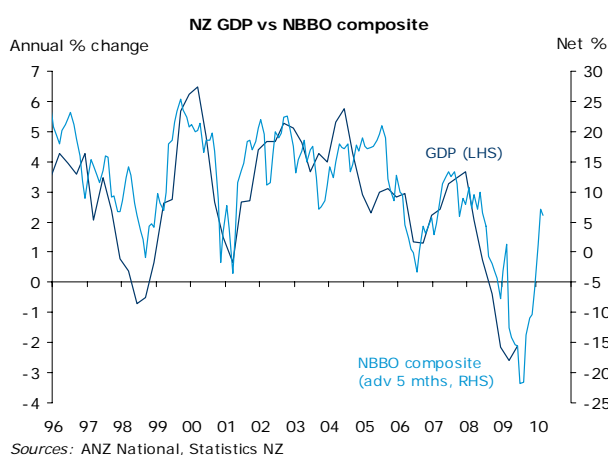
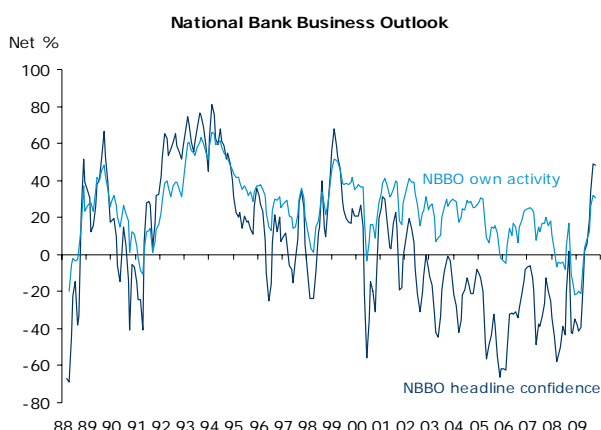
## NATIONAL BANK *BUSINESS OUTLOOK* UPDATE

The messages from the latest National Bank *Business Outlook* survey are very similar to the previous month. In fact, the inter-month movements were relatively small. Our composite growth indicator (which has a strong correlation with GDP growth) continues to flag 2½ percent growth next year.<sup>1</sup> But it is the non-tradable sector that is still leading the charge, giving an unbalanced and unsustainable feel to the recovery story. While the majority of sectors look set to begin expanding again, it is agriculture and manufacturing that continue to remain the laggards.

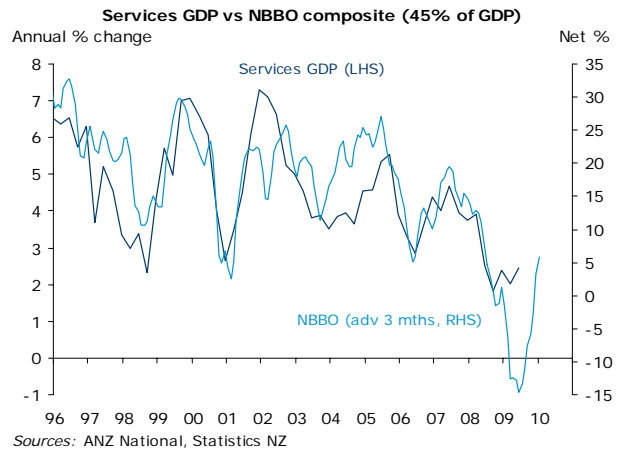
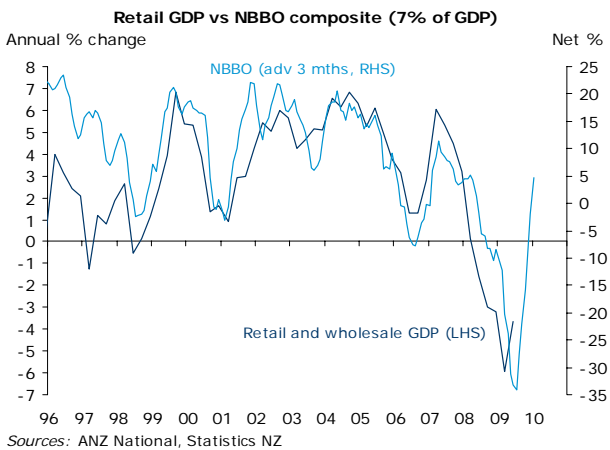
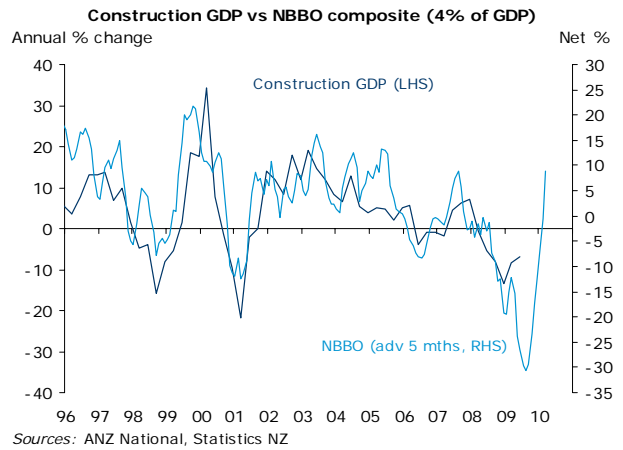
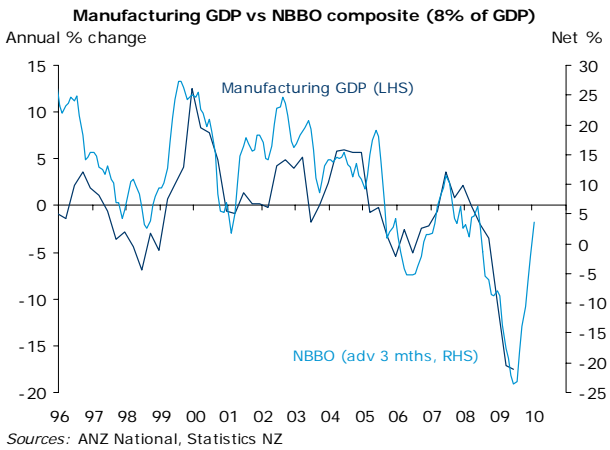
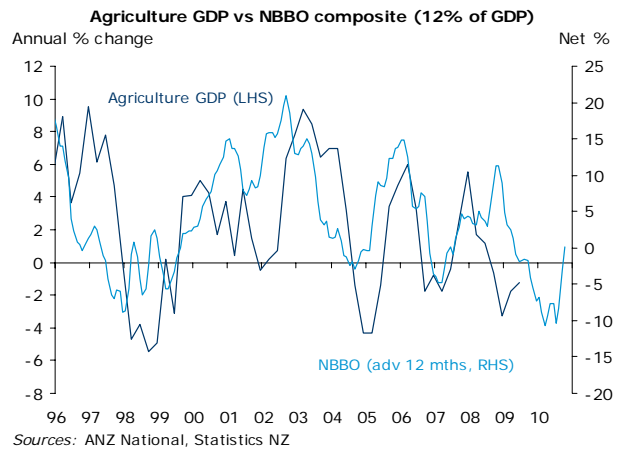
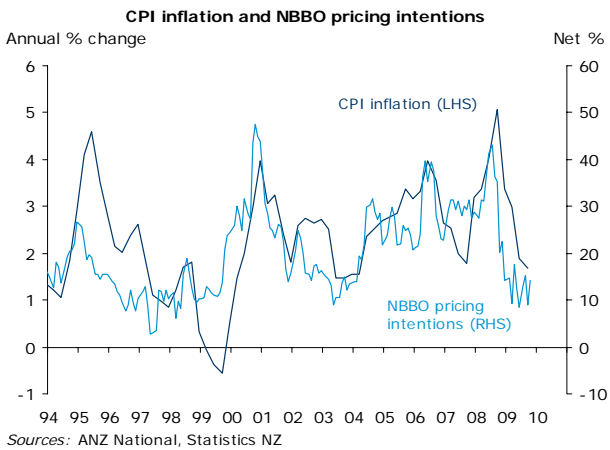
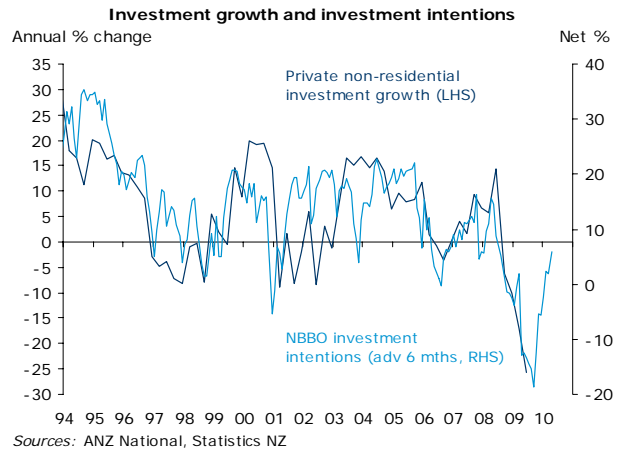
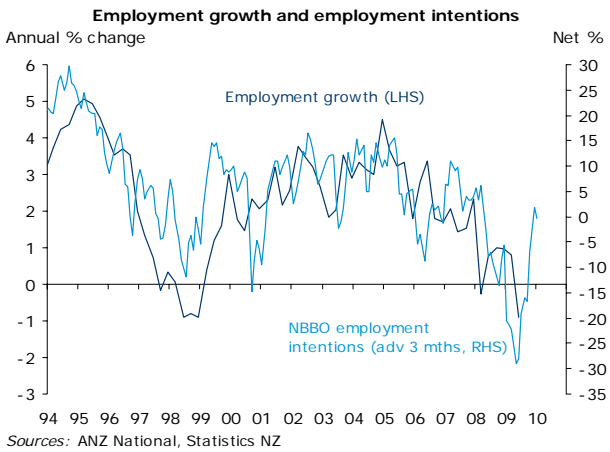
While headline confidence and firms' own activity expectations both eased slightly in October, the moves were insignificant and we would class them as stabilisation at elevated levels. Profit expectations continue to lift and this is encouraging in terms of future investment and employment decisions. Within the survey, intentions towards the former rose, while the latter dipped slightly, but again this was within the normal month-to-month volatility.

But the bottom line is that it is still a case of cautiousness when it comes to putting improved confidence into action (i.e. committing cold hard cash). While well off their troughs, investment and employment intentions remain subdued. The outlook for both has improved, but with levels still below average they have not yet improved to the point to suggest a self-sustaining recovery. Against this backdrop, it is not surprising to see pricing intentions remaining low and consistent with CPI inflation remaining well contained within the target band.

In terms of our sectoral composite indicators the agricultural sector remains the laggard and further contractions cannot be ruled out. The manufacturing sector appears to be brushing aside the concerns over the high NZD and is about to start growing again. But it is still the non-tradable sectors that look set to outperform, once again giving the recovery an unsustainable feel to it.



<sup>1</sup> Our composite measure uses the forward looking activity indicators from the National Bank *Business Outlook* survey (own activity, investment intentions, employment intentions and profit expectations), combining them into a single index. The sectoral composite indicators use the same methodology as the economy-wide indicator.



## INTEREST RATE STRATEGY

The RBNZ remains committed to keeping the OCR on hold until the second half of 2010. The market is still pushing for earlier hikes, but this has pushed out to March. Q3 labour market data this week is likely to reinforce the "on hold for some time" view on rates.

### Market themes...

- > RBNZ in no hurry to withdraw stimulus.
- > Market is still disbelieving of the RBNZ, but pushed out timing of tightening cycle from January to March.
- > Expectations of a 50bp move by the RBA tomorrow pared back.

### Review and outlook

**A more dovish than expected RBNZ statement led to a rally in swaps and futures.** The market was looking for the RBNZ to significantly tone down or even remove references to rates being on hold until the end of next year. Not only did the Bank stick to its stance of keeping rates on hold until the second half of 2010 (a slight change from "latter part"), it questioned current market pricing and saw "no urgency to begin withdrawing monetary policy stimulus". Receiving interest was reinforced by a global rally and stop losses on shorts in the Aussie 3's. The NZ curve steepened as the cost of carry looked to be too prohibitive to holding flatteners.

**However, the market does seem reluctant to receive below 4.50 percent (2-year) and remains above pre-CPI levels.** The market could still be long and unwilling to get involved, especially following the recent squeeze higher on very thin volumes. Market pricing has shifted the timing of the tightening cycle from January to March, so there is potentially value in following the policymaker. Entry levels for received positions are key, though the market is likely to remain jittery for some time. This week's Q3 labour market data will be particularly important. Weakness should see a good rally in the front end while anything that signals earlier stabilisation of the labour market could see another squeeze and maybe a flattening run. Amongst the general steepening during the week has been a lot of interest in paying the short swaps spreads such as 1/2's and 2/3's as the market re-prices rate hikes further out the curve.

**The RBA is centre stage in Australia this week, with a 25bp hike widely tipped.** But also of significance is the blow out in the basis market, which has seen 5y trade as high as BBSW +38.5 from BBSW +20 on 15 October. This move has come about as APRA favours local banks increasing their issuance for term and banks look to cover this by looking offshore with an estimated US\$12b

issued in October. The offsetting receive side in the form of Kangaroo issues only amounted to around \$1-2b and therefore bids have had to pay up to find offers. The NZ market started to follow this move last week, and given the sharp move in Australia, we see receivers reluctant to participate at around BKBM +23 in 5y. The risk is that the NZ market follows the Australian move, widening further.

### Borrowing strategies we favour at present

The RBNZ remains committed to keeping rates unchanged until the second half of next year, giving borrowers some time to continue benefiting from lower floating rates. We still favour using options to hedge as the market continues to run with an earlier tightening cycle than what the RBNZ flagged.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	RBNZ says that market pricing is wrong and they are on hold until the second half of 2010.
NZ data	↔/↑	Dataflow improving, but Q3 labour market data likely to buck the trend.
Fed Funds / front end	↔	Fed still committed to low rates for some time.
RBA	↑	25bp done deal tomorrow. Bigger move looks unlikely.
US 10 year	↔	Failed to break convincingly through 3.5% level. Focus on Fed's decision and their bond purchase programme.
NZ swap curve	↔/↑	Curve steepening pressure to continue.
Flow	↔/↓	Still not much mortgage paying. Receive flows have been at the front end so far.
Technicals	↔	2-year swap sitting at key level on 4.5% at present.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 10-Dec-09	+11	+2
Thu 28-Jan-10	+21	+6
Thu 11-Mar-10	+56	+22
Thu 29-Apr-10	+92	+73
Thu 10-Jun-10	+128	+102
Thu 29-Jul-10	+168	+139
Thu 16-Sep-10	-	+171

### Trading themes we favour at present

Our view that the market is premature in pricing in tightenings from early next year has been validated by the RBNZ. The market has pushed the timing of the rate hike to March, which is still too early in our view, and we see scope for further rallies in the March bank bills and for the curve to steepen.

## CURRENCY STRATEGY

The NZD now looks to be in 'sell the rallies' mode as the RBNZ last week showed they were in no rush to tighten monetary policy and the market got caught long as equity markets began to struggle. The latter, and risk appetites in general, will continue to have an important say on currency market direction.

### Market themes...

- > Jobs, it is now all about the jobs. NZ Q3 labour market and US non-farm payrolls this week.
- > Equities lead the currency still – note consumer confidence in US and Europe has turned.
- > Trend breaks in equity markets and risk-based currencies, including the NZD.

### Review and outlook...

**The RBNZ stuck to the script.** While there were minor changes in the wording in regards to the movement up in rates in terms of "latter part of 2010" versus "the second half of 2010", the spirit was pretty clear with these simple words: *"in contrast to current market pricing..."*. The RBNZ will need to see a lot of evidence they are wrong before they are in any hurry to raise rates. Evidence equals more jobs and more credit growth. But given the recent fall in consumer confidence in the major world economies and the massive gap here between actual and expected activity, we struggle to see a material pick up in either for some time yet. This leaves us comfortable with our September start to the tightening cycle – or in other words, the RBNZ is not set to immediately follow the RBA in hiking rates. This should take some of the heat out of the NZD.

**But the NZD won't depreciate by itself.** The world has to believe it is again vulnerable before cash is taken home. Put simply, if you are seeing your stock portfolio diminish, you don't want an ever increasing portion of your wealth in a South Pacific nation. This is why equity markets have driven the currency markets during this correction/recovery, and if equities continue to slide, the NZD will follow.

**The violence of the price action seen last week in currencies and stock markets indicates that the markets are at least at an interim inflection phase.** The stock market slippage also suggests that the uptrend apparent since March may have ended and that they too are set for a period of marked consolidation. If these extend, a stronger USD may well be the surprise package over the coming months.

**We now see the NZD vulnerable to a move potentially as low as 0.6600.** The key level is

the 55 day moving average at 0.7130 followed by our often discussed breakout level at 0.6900. Top-side, the 0.7370 level is now a clear top. The Fonterra auction result this week (if it shows another rise) should produce a bounce to add/establish shorts on.

**The NZDAUD cross is again testing support at the 0.7960 level and we expect any retracement to 0.8010 to provide a selling opportunity.** Given that the differences in the respective monetary policy outlooks will be highlighted again this week, with an expected 25 basis point hike from the RBA on Tuesday, the target of 0.7750 looks entirely possible. The market does not appear as short on this cross as has been the case in the recent past and the fiscal and monetary differences between the two economies are obvious.

### NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Softs and hard generally tracking together.
Partial indicators	↔/↓	Both economies improving, but Aussie faster.
Technicals	↓	0.7750 looks possible.
Sentiment	↔/↓	RBNZ reinforced that they are no hurry to follow RBA.
Other	↔/↓	Asian central banks underweight Australian asset.
<b>On balance</b>	↔/↓	<b>NZD underperforming.</b>

### NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long term average.
Fair value – short-term	↔/↓	Above cyclical fair value estimates.
Yield	↔	RBNZ reiterated they are low for longer. But are the Fed too?
Commodities	↔	Still lagging, but momentum ok.
Risk aversion	↔/↓	Now looking shaky. Equity performance again the key.
Partial indicators	↔	Inventories being rebuilt, but what about demand?
Technicals	↓	Top in place. Test of 0.66 not out of the question.
AUD	↔/↑	First to hike in G20.
Sentiment	↔/↓	Positive NZ data last week failed to send NZD higher.
Other	↔	China vs US story.
<b>On balance</b>	↔/↓	<b>A correction looks underway.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
2-Nov	AU	AiG Performance of Manufacturing Index (Oct)	-	52.0	11:30
		TD Securities Inflation (Oct) – mom	-	0.0%	12:30
		House Price Index (3Q) - qoq	3.0%	-1.5%	13:30
		RBA Commodity Index SDR (Oct) - yoy	-	-32.3%	18:30
	UK	Hometrack Housing Survey (Oct) - mom	-	0.2%	13:01
		PMI Manufacturing (Oct)	50.0	49.5	22:30
	JN	Labour Cash Earnings (Sep) - yoy	-2.1%	-2.7%	14:30
		Vehicle Sales (Oct) - yoy	-	3.5%	18:00
	GE	PMI Manufacturing (Oct F)	51.1	51.1	21:55
	EC	PMI Manufacturing (Oct F)	50.7	50.7	22:00
3-Nov	US	ISM Manufacturing (Oct)	53.0	52.6	04:00
		ISM Prices Paid (Oct)	64.0	63.5	04:00
		Pending Home Sales (Sep) – mom	0.0%	6.4%	04:00
		Construction Spending (Sep)	-0.2%	0.8%	04:00
		Fed's Tarullo Speaks on Executive Pay in Washington	-	-	09:15
	<b>NZ</b>	<b>Private Wages Inc Overtime (3Q) - qoq</b>	<b>0.3%</b>	<b>0.3%</b>	<b>10:45</b>
		<b>Average Hourly Earnings (3Q) - qoq</b>	<b>0.3%</b>	<b>0.7%</b>	<b>10:45</b>
		<b>ANZ Commodity Price (Oct) - mom</b>	<b>-</b>	<b>6.8%</b>	<b>15:00</b>
	AU	RBA Cash Rate Target	3.50%	3.25%	16:30
	UK	PMI Construction (Oct)	47.2	46.7	22:30
4-Nov	EC	ECB's Mersch and Weber Speak in Luxembourg	-	-	03:00
		ECB's Constancio Speaks at Conference in Lisbon	-	-	08:00
		PMI Services (Oct F)	52.3	52.3	22:00
		PPI (Sep) - mom	-0.4%	0.4%	23:00
	US	Factory Orders (Sep)	0.8%	-0.8%	04:00
	<b>NZ</b>	<b>Fonterra to Announce Outcome of Monthly Milk Powder Auction</b>	<b>-</b>	<b>-</b>	<b>06:00</b>
		<b>Government Financial Statements as at Sept. 30</b>	<b>-</b>	<b>-</b>	<b>10:00</b>
	AU	AiG Performance of Service Index (Oct)	-	49.3	11:30
		Retail Sales (Sep) - mom	0.5%	0.9%	13:30
		Retail Sales Ex Inflation (3Q) - qoq	-0.5%	2.0%	13:30
		Building Approvals (Sep) - mom	2.3%	-0.1%	13:30
	UK	Nationwide Consumer Confidence (Oct)	73	71	13:01
		PMI Services (Oct)	55.5	55.3	22:30
	JN	BoJ Governor Masaaki Shirakawa to Speak in Tokyo	-	-	15:30
	GE	PMI Services (Oct F)	50.9	50.9	21:55
5-Nov	US	ADP Employment Change (Oct)	-200K	-254K	02:15
		ISM Non-Manufacturing Composite (Oct)	51.6	50.9	04:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
5-Nov cont.	US	FOMC Rate Decision	0.25%	0.25%	08:15
	<b>NZ</b>	<b>Unemployment Rate (3Q)</b>	<b>6.4%</b>	<b>6.0%</b>	<b>10:45</b>
		<b>Participation Rate (3Q)</b>	<b>68.2%</b>	<b>68.4%</b>	<b>10:45</b>
		<b>Employment Change (3Q) - qoq</b>	<b>-0.3%</b>	<b>-0.4%</b>	<b>10:45</b>
		<b>RBNZ Governor Bollard Speaks on Economy</b>	-	-	<b>12:45</b>
	JN	BoJ to Release Board Meeting Minutes	-	-	12:50
	AU	Trade Balance (Sep)	-2150M	-1524M	13:30
		RBA Governor Stevens Speaks in Melbourne	-	-	21:55
	UK	Industrial Production (Sep) - mom	1.2%	-2.5%	22:30
	EC	Retail Sales (Sep) - mom	0.2%	-0.2%	23:00
6-Nov	UK	BoE Interest Rate Announcement	0.50%	0.50%	01:00
		G20 Finance Ministers, Central Bankers Meet in Scotland	-	-	12:00
	EC	ECB Announces Interest Rates	1.00%	1.00%	01:45
		Trichet Speaks at ECB Monthly News Conference	-	-	02:30
		ECB's Paramo Speaks in London	-	-	17:30
	US	Non-Farm Productivity (3Q P)	6.5%	6.6%	02:30
		Unit Labour Costs (3Q P)	-4.0%	-5.9%	02:30
		Initial Jobless Claims (w/e Nov-01)	522K	530K	02:30
		Continuing Claims (w/e Oct-25)	5750K	5797K	02:30
	AU	AIG Performance of Construction Index (Oct)	-	50.8	11:30
		RBA Quarterly Monetary Policy Statement	-	-	13:30
		Foreign Reserves (Oct)	-	48.9B	18:30
		RBA Deputy Governor Battellino Speaks in Perth	-	-	19:20
	JN	Leading Index CI (Sep P)	86.2	83.2	18:00
		Coincident Index CI (Sep P)	92.5	91.2	18:00
	UK	PPI Input (Sep) - mom	1.5%	-0.5%	22:30
		PPI Output (Sep) - mom	0.3%	0.5%	22:30
		PPI Output Core (Sep) - mom	0.2%	0.5%	22:30
7-Nov	GE	Factory Orders (Sep) - mom	1.0%	1.4%	00:00
	US	Change in Non-Farm Payrolls (Oct)	-175K	-263K	02:30
		Unemployment Rate (Oct)	9.9%	9.8%	02:30
		Average Hourly Earnings (Oct) - mom	0.1%	0.1%	02:30
		Fed's Evans to Open Community Bankers Conference in Chicago	-	-	03:45
		Wholesale Inventories (Sep)	-1.0%	-1.3%	04:00
		Consumer Credit (Sep)	-\$10.3B	-\$12.0B	09:00
		Fed's Duke to Speak to Community Bankers Conference in Chicago	-	-	09:00

Key: AU: Australia, EC: 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:** Upcoming data is expected to continue its generally improving trend, but we still question whether the “mix” to growth is right to achieve a sustainable recovery. Labour market data is expected to show further deterioration, but not at the pace experienced in the June quarter.

Date	Data/Event	Economic Signal	Comment
Tue 3 Nov (10.45)	LCI and QES (Sep qtr)	Softening	Wage growth is expected to continue to moderate as labour market conditions remain weak. Annual private sector LCI wage growth is expected to ease to 1.8 percent.
Tue 3 Nov (15.00)	ANZ Commodity Price Index (Oct)	-	-
Wed 4 Nov	Fonterra online DairyTrade auction results	A correction or further gains?	With increases of over 65 percent since July, logic would suggest a pull-back is pending. However, anecdotes continue to be received of improving demand and of price rises, so further gains cannot be ruled out.
Wed 4 Nov (10.00)	Financial Statements of Government for three months to September	Further into the red	The accounts for the year ended June showed a bigger deterioration in the fiscal position than expected at the May <i>Budget</i> . With the tax take likely to be still under pressure, this deterioration will likely have continued.
Thu 5 Nov (10.45)	Household Labour Force Survey (Sep qtr)	Still deteriorating	The unemployment rate is expected to rise again, although not by the significant magnitude recorded in Q2. We expect an increase to 6.3 percent.
circa 11 Nov	REINZ House Sales (Oct)	Further house price increases.	The average value of weekly RBNZ loan approvals suggests that house prices are continuing to recover. Turnover numbers are likely to be around levels experienced over the past six months, and the median days to sell should remain relatively low.
Wed 11 Nov (09.00)	RBNZ <i>Financial Stability Report</i>	Risks diminishing?	The RBNZ are likely to again acknowledge that NZ's financial system, compared with international counterparts, has come through the past 24 months in reasonable sharp, although not without its risks.
Thu 12 Nov (10.45)	Retail Trade Survey (Sep)	Stabilising	Another modest rise in spending is expected in the month. Volume growth in the quarter should be positive, but modest.
Mon 16 Nov (10.45)	Producer Price Index (Sep qtr)	A contraction in margins?	Both input and output prices are expected to rise in the quarter, although the former by a greater magnitude suggesting a contraction in non-wage margins.
Mon 23 Nov (10.45)	International Travel and Migration (Oct)	Another gain	The number of New Zealanders permanently departing is likely to remain subdued. However, we expect the level of arrivals to also begin to ease. Another monthly net inflow is expected, but potentially smaller than in recent months.
Thu 26 Nov (15.00)	NBNZ <i>Business Outlook</i> (Oct)	-	-
Fri 27 Nov (10.45)	Overseas Merchandise Trade (Oct)	Another deficit	Another monthly trade deficit is expected, which is typical for October months. The level of imports will be important to watch for any signs of a turn in prospects.
<b>On Balance</b>		<b>Up</b>	<b>Right direction, wrong mix.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
GDP (% qoq)	-0.5	-1.0	-0.8	0.1	<b>0.5</b>	<b>0.8</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>
GDP (% yoy)	-0.4	-2.2	-2.6	-2.1	<b>-1.2</b>	<b>0.6</b>	<b>2.0</b>	<b>2.5</b>	<b>2.6</b>	<b>2.3</b>
CPI (% qoq)	1.5	-0.5	0.3	0.6	1.3	<b>0.4</b>	<b>0.3</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>
CPI (% yoy)	5.1	3.4	3.0	1.9	1.7	<b>2.5</b>	<b>2.5</b>	<b>2.7</b>	<b>2.1</b>	<b>2.5</b>
Employment (% qoq)	0.1	0.8	-1.4	-0.5	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>0.4</b>
Employment (% yoy)	1.0	1.0	0.8	-0.9	<b>-1.2</b>	<b>-2.2</b>	<b>-1.0</b>	<b>-0.6</b>	<b>-0.3</b>	<b>0.3</b>
Unemployment Rate (% sa)	4.3	4.7	5.0	6.0	<b>6.3</b>	<b>6.6</b>	<b>6.7</b>	<b>6.9</b>	<b>7.1</b>	<b>7.0</b>
Current Account (% GDP)	-8.6	-8.9	-8.1	-5.9	<b>-4.2</b>	<b>-3.5</b>	<b>-3.7</b>	<b>-4.7</b>	<b>-5.5</b>	<b>-5.6</b>
Terms of Trade (% qoq)	-1.0	-1.0	-2.7	-8.9	<b>1.0</b>	<b>1.1</b>	<b>0.5</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>
Terms of Trade (% yoy)	5.8	1.8	-5.0	-13.1	<b>-11.4</b>	<b>-9.5</b>	<b>-6.6</b>	<b>2.6</b>	<b>1.7</b>	<b>0.7</b>

## KEY ECONOMIC INDICATORS

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Retail Sales (% mom)	-1.2	0.2	0.0	0.4	0.7	0.0	-0.5	1.1	..	..
Retail Sales (% yoy)	-3.7	-6.9	-1.9	-1.7	-2.4	-1.1	-1.4	-1.1	..	..
Credit Card Billings (% mom)	1.7	1.1	-2.9	2.4	-0.3	0.1	0.2	1.6	-1.0	..
Credit Card Billings (% yoy)	-2.4	-1.9	-4.7	-1.6	-2.3	-2.1	-1.9	0.1	-2.3	..
Car Registrations (% mom)	-14.4	-14.8	6.8	-0.7	-3.0	6.1	7.2	-3.4	7.0	..
Car Registrations (% yoy)	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8	..
Building Consents (% mom)	-12.3	11.9	-1.8	11.8	2.8	-9.1	4.0	1.7	3.4	..
Building Consents (% yoy)	-51.1	-39.8	-34.4	-56.5	-23.5	-23.8	-16.7	-8.9	-12.7	..
REINZ House Price (% yoy)	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	0.0	5.1	6.1	..
Household Lending Growth (% mom)	0.2	0.1	0.0	0.2	0.4	0.1	0.3	0.3	0.2	..
Household Lending Growth (% yoy)	3.8	3.1	2.7	2.5	2.5	2.3	2.4	2.3	2.3	..
ANZ-Roy Morgan Consumer Confidence	103.7	97.1	93.4	104.6	105.8	103.4	107.8	112.3	120.0	125.9
NBNZ Business Confidence	..	-41.2	-39.3	-14.5	1.9	5.5	18.7	34.2	49.1	48.2
NBNZ Own Activity Outlook	..	-20.1	-21.2	-3.8	3.8	8.3	12.6	26.0	32.2	30.5
Trade Balance (\$m)	-102	483	438	322	906	-331	-176	-719	-424	..
Trade Balance (\$m annual)	-5405	-5165	-4684	-4070	-2994	-3110	-2490	-2361	-1533	..
ANZ World Commodity Price Index (% mom)	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0	4.4	6.8	..
ANZ World Commodity Price Index (% yoy)	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0	..
Net Migration (sa)	870	1640	1720	2080	2610	1690	2480	1610	1800	..
Net Migration (annual)	4538	6160	7482	9176	11202	12515	14488	15642	17043	..

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

## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Sep-09	Oct-09	2-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.702	0.719	0.711	0.710	0.720	0.710	0.690	0.680	0.670	0.650
NZD/AUD	0.816	0.812	0.796	0.798	0.783	0.780	0.775	0.782	0.788	0.793
NZD/EUR	0.482	0.489	0.484	0.480	0.474	0.473	0.466	0.463	0.459	0.455
NZD/JPY	64.2	64.1	63.6	62.5	61.9	62.5	62.1	62.6	63.0	61.8
NZD/GBP	0.430	0.443	0.434	0.425	0.431	0.430	0.421	0.412	0.404	0.389
NZ\$ TWI	64.3	65.0	64.19	63.8	63.6	63.3	62.3	61.9	61.6	60.6
NZ interest rates	Sep-09	Oct-09	2-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.74	2.50	2.50	2.50	2.50	2.50	3.00	4.00	4.50	5.00
90 day bill	2.77	2.79	2.79	2.80	2.80	2.80	3.60	4.50	5.00	5.50
10 year bond	5.82	5.73	5.73	5.60	5.60	5.70	6.00	6.10	6.30	6.50
International	Sep-09	Oct-09	2-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25	1.75
US 3-mth	0.29	0.36	0.28	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.25	3.25	3.50	4.00	4.00	4.00	4.00	4.00	4.50
AU 3-mth	3.38	3.68	3.94	3.90	4.40	4.30	4.30	4.30	4.50	5.00

## KEY RATES

	30 Sep	26 Oct	27 Oct	28 Oct	29 Oct	30 Oct
Official Cash Rate	2.50	n/a	2.50	2.50	2.50	2.50
90 day bank bill	2.81	n/a	2.80	2.80	2.79	2.79
NZGB 11/11	4.17	n/a	4.52	4.52	4.33	4.32
NZGB 04/13	4.96	n/a	5.28	5.25	5.15	5.10
NZGB 12/17	5.61	n/a	5.83	5.82	5.73	5.72
NZGB 05/21	5.94	n/a	6.10	6.10	6.03	6.02
2 year swap	4.30	n/a	4.75	4.70	4.52	4.53
5 year swap	5.49	n/a	5.76	5.73	5.63	5.65
RBNZ TWI	65.5	n/a	67.2	66.7	64.9	65.7
NZD/USD	0.7209	n/a	0.7479	0.7414	0.7181	0.7317
NZD/AUD	0.8205	n/a	0.8141	0.8125	0.8005	0.7993
NZD/JPY	64.72	n/a	68.86	67.72	64.85	66.83
NZD/GBP	0.4501	n/a	0.4582	0.4531	0.4389	0.4416
NZD/EUR	0.4931	n/a	0.5024	0.5003	0.4880	0.4927
AUD/USD	0.8786	n/a	0.9187	0.9125	0.8971	0.9154
EUR/USD	1.4620	n/a	1.4888	1.4818	1.4714	1.4850
USD/JPY	89.77	n/a	92.07	91.34	90.31	91.33
GBP/USD	1.6018	n/a	1.6324	1.6363	1.6363	1.6570
Oil	66.56	n/a	79.45	79.45	77.39	79.84
Gold	996.20	n/a	1038.70	1039.45	1032.15	1047.35
Electricity (Haywards)	1.73	1.22	2.53	2.72	3.87	8.08
Milk futures (US\$/contract)	102	113	115	118	118	118
Baltic Dry Freight Index	2220	3044	3013	2986	3013	3103

### 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.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

##### **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;
- 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.

#### **NEW ZEALAND DISCLAIMER**

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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