

# NEW ZEALAND ECONOMICS MARKET FOCUS

31 October 2011

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## PAYING HOMAGE

### ECONOMIC OVERVIEW

We continue to pay homage to global over local developments in regards to the outlook for New Zealand. A guarded stance towards the global scene is still warranted, despite last week's plan of sorts out of Europe and an improving tone in US data. While the market is ducking and diving between extremes, namely relief and cynicism, one anchor that underpins our economic assessment remains: a structurally lower trend growth rate for years to come given the deleveraging backdrop. With income generation an important dynamic that is needed for any recovery and a critical element of an orderly deleveraging adjustment, this week's labour market and commodity price data will carry particular relevance. We expect them to take on a reasonable tone, maintaining an aura of local resilience amidst an uncertain global scene.

### LABOUR MARKET PREVIEW

We expect signs of modest improvement to be evident in this week's Q3 labour market data. The unemployment rate looks set to decline to 6.4 percent, with a small increase in employment. Wage growth is expected to remain moderate and of no immediate concern to the RBNZ. Sectoral differences in wages and employment are expected to become increasingly evident. With the RBNZ seemingly at ease over the domestic inflation outlook there is unlikely to be anything in the labour market data that will unduly trouble the RBNZ. The hurdle to an OCR hike before mid 2012 remains high.

### QUARTERLY ECONOMIC FORECASTS SUMMARY

The New Zealand economy is navigating four large events simultaneously: debt payback, rebalancing, the Canterbury earthquakes, and a terms of trade boost. At the same time there is growing downside risk to the global scene. The interaction of these shocks will see more volatility across the business cycle amidst a lower trend growth rate. We've pencilled in around 3 percent growth over the next two years and continue to characterise the outlook as one of "grumpy growth" that is coming off a low base. A better national balance sheet is a precursor to a strong pro-cyclical upswing and we are not there yet. But progress is being made.

### INTEREST RATE STRATEGY

The pendulum of global optimism swung even further into positive territory last week on the European debt "plan". But significant challenges lie ahead, and we may yet see optimism fade as further details emerge. Cracks are already emerging, and Italy is back in the spotlight again. The tone of US data has improved, bolstering sentiment, but "Fedspeak" is suggestive of more easing, which should cap US bond yields. Closer to home, all eyes are on the RBA tomorrow – markets expect a lot, and we need to see a cut.

### CURRENCY STRATEGY

The EU summit finally delivered the prescription the FX markets were looking for, but already the "Europhoria" is waning as the plan is exposed to deeper scrutiny. This was never going to be a quick fix so we expect renewed weakness to risk trades and the EUR to emerge. Stellar performance from global equity markets will see antipodean fund managers needing to top up hedges at month end. An expected RBA rate cut tomorrow should see AUD head lower.

# ECONOMIC OVERVIEW

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## FORTHCOMING EVENTS

**RBNZ Credit Aggregates – September** (Monday, October 31, 3:00pm). Annual household and business credit growth of around 1 percent is expected. Agricultural credit levels are expected to be about 0.5 percent lower than 12 months earlier.

**SNZ Labour Cost Index – 2011Q3** (Tuesday, November 1, 10:45am). We expect a 0.5 percent increase in private sector salary and wage rates (2.0 percent y/y). See our preview on page 5.

**SNZ Quarterly Employment Survey – 2011Q3** (Tuesday, November 1, 10:45am). Private Sector Ordinary Time Average Hourly Earnings are expected to increase 0.8 percent q/q (2.9 percent y/y). QES Filled Jobs are forecast to rise 0.5 percent q/q. See our preview on page 5.

**ANZ Commodity Price Index – October** (Tuesday, November 1, 1:00pm).

**GlobalDairyTrade auction** (Wednesday, November 2, early am). We expect a 1 percent increase in the average winning price, with greater increases for higher fat content products.

**SNZ Household Labour Force Survey – 2011Q3** (Thursday, November 3, 10:45am). We expect a 0.2 percent increase in employment, with the unemployment rate inching down to 6.4 percent. See our preview on page 5.

## WHAT'S THE VIEW

**We can wrap up last week's developments with seven key observations:**

- **A subdued Q3 CPI result** gives the RBNZ considerable scope to maintain a wait-and-see

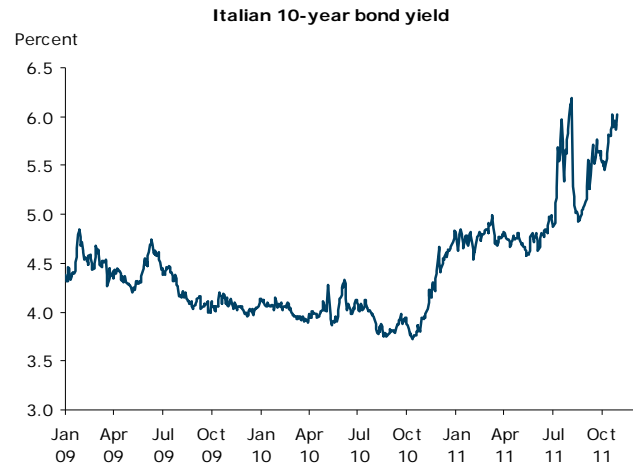
line. The same in Australia looks set to deliver a rate cut from the RBA tomorrow.

- **The October OCR Review confirmed that while a tightening bias remains, the RBNZ are in no rush to exercise it.** However, the tightening bias itself is out of sorts with the chorus from other central banks such as the Bank of Canada. But with the bias conditional on global events having only a mild impact on New Zealand, the RBNZ is not short of wiggle room to change its tune if necessary.
- **All political parties are in a fiscal straitjacket post election.** The Treasury is still predicting a return to surplus in 2014/15. We think this is a stretch. But the spirit is what is important. Brace for 5 years of contractionary fiscal policy. This is of course a headwind to growth but also gives the private sector certainty over what they are facing. Such certainty and commitment is sadly lacking in some other nations.
- **We're receiving more wake-up calls as to the flow-on from the global scene.** We can still see elements of resilience in the levels of business confidence, but the third month of a receding trend in the National Bank Survey is starting to become a bit too directional for our liking. The annual trade surplus declined, despite the goods terms of trade being at 37 year highs. Fonterra announced a cut to their 2011/12 payout forecast. At \$6.30/Kgms plus dividend this will be the third highest on record, but it still represents a fall in total dairy income from the boomer 2010/11 season. Assuming production is 5 percent higher than last season (a conservative assumption given the strong start to the season) gross income will be around 13 percent lower than last season. None of these are outright worrying signals. The levels remain solid and the National Bank survey is still pointing to 3.5 percent annual growth! However, more recent events are starting to raise questions about the robustness of the resilience we have seen to date. The probability distribution surrounding the outlook for 2012 is pointing down.
- **We can take some encouragement from a "plan" finally coming out of Europe that contained market-soothing steps, including:**
  - Banks will be required to hold at least 9 percent core tier 1 capital by mid 2012. Stress tests using September 30th data suggest this means an additional €106bn capital;
  - The EFSF will be leveraged to around €1trn,

## ECONOMIC OVERVIEW

but we do not know by which method (SPV or insurance);

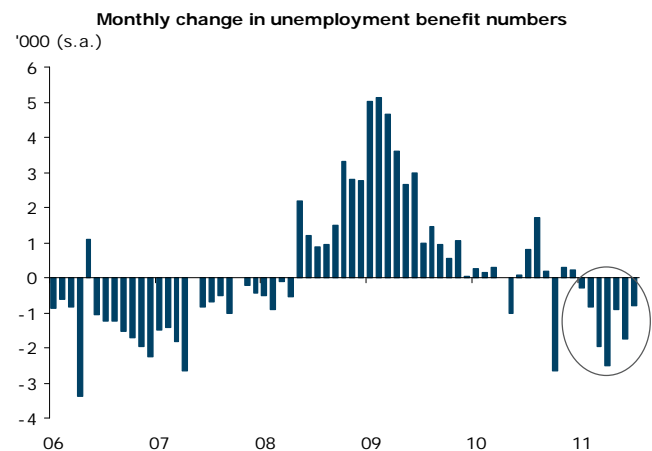
- 50 percent “voluntary” haircuts on Greek debt, which have been proposed to avoid triggering a credit event, and;
  - Treaty change options “to be explored” which include new rules, closer monitoring, and greater enforcement.
- **However, notable absences, questions and issues remain:**
    - Will we see sufficient nominal GDP growth to avoid the debt trap? We continue to eye the wedge between nominal borrowing yields and prospects for nominal GDP growth. The US looks okay on the data front looking at key leading indicators. Europe does not.
    - Is the size of the package sufficient to truly ring-fence potential next cabs off the rank beyond Greece?
    - Where are the details on the necessary fiscal union?
    - With the battleground shifting beyond Greece to Italy and co, will these countries be able to deliver on the required austerity to alleviate solvency concerns?
    - There are a host of event dangers including potential political paralysis and possible further credit rating downgrades.
  - **Financial markets finished last week on a more upbeat tone, although we remain sceptical of the underlying drivers.** The currency market, commodities and equities took developments as a call to risk-on. Was this new-found optimism the result of confidence in the European package? Not entirely. Sentiment would have been aided by the better tone of US data, and the prospect of policy easing in China. The European package itself has probably merely eased outright deflationary fears. All of these factors are welcome and would have helped to mitigate some extreme tail risks or systemic risks. However, Italian yields on sovereign debt and in the interbank market have not fallen much since the introduction of the package. In fact the Government yields are higher and are currently hovering around 6 percent! So **a lot of sensible heads and markets are saying nothing has fundamentally changed. We concur with that.**



Sources: ANZ, National Bank, Bloomberg

**None of these developments leave us inclined to change our core economic view.** We continue to closely follow global developments and the various channels through which they will impact on the New Zealand economy. This dominates the risk profile. It is down as opposed to up. Rather than get caught in the noise of weekly developments, we continue to simply accept the inevitability of volatility (trying to pick niggling turns and settling points is quite frankly a mug's game when we have such a complicated array of forces at present), and focus on the inevitable trend of long slow grumpy growth.

**Looking at the week ahead, it is income week.** The importance of income cannot be downplayed. When you are faced with the reality that debt to GDP must decline, getting GDP up is the far more appealing adjustment path. Moreover, labour income growth is an important dynamic that is needed for a more sustained upturn.



Sources: ANZ, National Bank, MSD

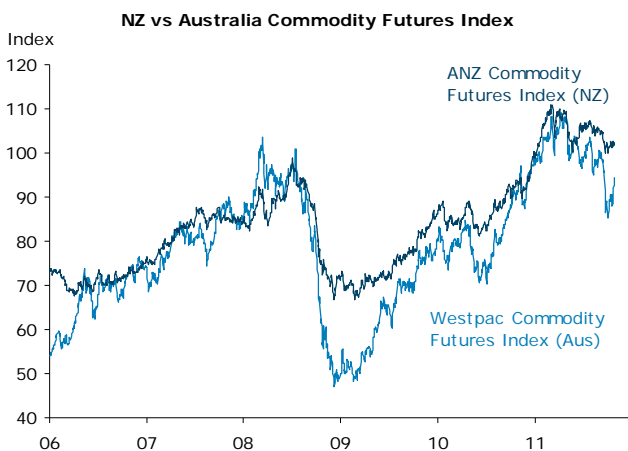
**Gradual improvement in labour market data is expected to be evident.** The unemployment rate looks set to decline to 6.4 percent, with a small

## ECONOMIC OVERVIEW

increase in employment expected. We're putting particular weight on the small fall in registered unemployment beneficiaries over the quarter. Wage growth is expected to remain moderate and of no immediate concern to the RBNZ. Page 5 gives more flavour around what we expect out of the labour market.

**Behind the scenes we are receiving more and more anecdotes of structural shifts within the labour market.** Amidst an economy that is navigating multiple shocks, including deleveraging and rebalancing, swings in the labour market will not be solely driven by business cycle dynamics. At the heart of the economy's rebalancing of demand is also a rebalancing of supply, and this means the redeploying of labour market resources within the economy.

**This week's commodity price data will provide an up to date stock-take of the degree of relative resilience for NZ.Inc.** NZ commodity price futures have showed a much smaller degree of slippage relative to Australian gauges.



Wednesday's GlobalDairyTrade auction will be the first since the Fonterra announcement was made public.

**We expect to see a lift of between 1-2 percent for milk powder products as China re-enters the import market.** It appears China has worked its way through high imports and inventories from the first quarter of 2011, after whole milk powder (WMP) imports in September hit their lowest level since December 2008 (33 months). China's skim milk powder (SMP) import volumes have been steadier this year and are up 35 percent for the calendar year-to-date. So SMP may well strengthen more than WMP. The prices of milk-fat products have fallen a long way since this time last year, largely due to an increase in supply from the Northern Hemisphere. We expect these to start showing some signs of stabilisation at

current levels.

**A key part of our economic view is that the current run of low credit growth has a structural element to it.** As such, we expect tepid rates of credit growth to continue as firms, farms and households look at repairing balance sheets. October is expected to deliver a large fall in agricultural credit as the record dairy cheques are put to use.

**We'll close this week with an observation as we head into the election.** Policy prescriptions are coming to the fore. What is interesting is the relative consistency! We're in a world where points of differentiation and leadership over populism are becoming more valuable commodities. The responsible rhetoric emerging is more of a reflection of the nationwide mood of restraint, and of structural changes we are observing. Much of the electorate would not take kindly to a pre-election lolly scramble, given that they realise this will mean higher taxes (or spending cuts) in future. Such are the lessons of debt payback.

### RECENT LOCAL DATA

- **SNZ Consumers Price Index – Q3.** Consumer prices rose 0.4 percent in Q3 (+4.6 percent y/y).
- **Pre-Election Economic and Fiscal Update.** The OBEGAL is projected to return to surplus by 2014/15. By 2015/16 a surplus of 1.2 percent of GDP is forecast, with net public debt declining to 28.2 percent of GDP.
- **National Bank Business Outlook – October.** Headline business confidence fell 17 points to +13. Firms' own activity expectations were down 9 points (to +26), with investment (+9) and employment intentions (+10) both down.
- **RBNZ OCR Review.** The OCR was held at 2.5 percent with the Governor noting that "Given the ongoing global economic and financial risks, it remains prudent to continue to keep the OCR on hold at 2.5 percent for now. However, if global developments have only a mild impact on the New Zealand economy, it is likely that gradually increasing pressure on domestic resources will require future OCR increases."
- **SNZ Merchandise Trade – September.** There was a monthly trade deficit of \$751m, with the annual surplus narrowing to \$724m. In the September quarter, the merchandise trade surplus of \$340m s.a was registered, compared to a \$328m surplus in the June quarter.
- **SNZ Building Consents – September.** The number of dwelling consents fell 17.1 percent. On an ex-apartment basis, consents fell 14 percent.

## 2011Q3 LABOUR MARKET PREVIEW

### SUMMARY

We expect signs of modest improvement to be evident in this week's Q3 labour market data. The unemployment rate looks set to decline to 6.4 percent, with a small increase in employment. Wage growth is expected to remain moderate and of no immediate concern to the RBNZ. Sectoral differences in wages and employment are expected to become increasingly evident. With the RBNZ seemingly at ease over the domestic inflation outlook there is unlikely to be anything in the labour market data that will unduly trouble the RBNZ. The hurdle to an OCR hike before mid 2012 remains high.

September 2011 quarter expectations		
	Our Forecast	Market
LCI salary and wage ordinary time (private sector)	+0.5% q/q +2.0% y/y	+0.5%q/q +2.0%y/y
QES salary and wage ordinary time (private sector)	+0.8% q/q +2.9% y/y	+0.9%q/q +3.0%y/y
HLFS unemployment rate (s.a.)	6.4%	6.5%
HLFS participation rate (s.a.)	68.3%	68.5%
HLFS employment growth	+0.2% q/q +1.2% y/y	+0.4% q/q +1.4% y/y

**Labour market indicators, while not all pointing in the same direction, suggest the demand for labour was reasonable over Q3:**

- **Survey measures point to improving labour market activity.** Past employment from the Q3 OSBO survey remained in negative territory but firms were still expecting to take on more workers. Employment intentions from the NBBO strengthened in the September quarter, particularly in construction, services, and retail, although they eased back slightly in October.
- **The National Employment indicator** registered a solid 1.1 percent s.a. jump in August to be 0.6 percent higher than three months earlier. This does not line up perfectly with either the HLFS or QES employment measures, but confirms the likelihood of a solid increase in employment.
- **Job advertising, which had been recovering from a low base, has been easing since July.** Newspaper ads declined 3.8 percent s.a. in Q3, whereas our composite measure (a weighted average of newsprint and internet ads) showed a 1.8 percent fall. This suggests fairly subdued employment over the remainder of 2011/early 2012, although encouragingly Christchurch job ads increased in September.
- **There are fewer people on benefits.** Numbers

on the unemployment benefit have declined by around 3,400 persons between June and September, to their lowest level since June 2009.

**On the employment front, we expect a 0.2 percent increase in HLFS employment growth.**

The unemployment rate is expected to ease to 6.4 percent, continuing the mild improvement seen since the start of the year. Hours worked per person have been slowly moving up and are expected to continue lifting to historical norms. Last week's Q3 working age population data showed a moderate rate of increase, driven by lower natural increase and a small net emigration outflow.

**While we are quite comfortable around our call for the unemployment rate, we are less comfortable around our picks for employment and labour force participation.** These could go either way. Despite little employment growth in Q2, we are assuming that a positive labour market outlook and income requirements will be sufficient to keep most job hunters actively engaged in the labour market, with only a small projected fall in labour force participation. If this effect is stronger than we assume it will deliver a stronger employment/lower participation rate mix, and vice versa. If we put any weight on past statistical quirks, Q3 is typically weaker.

**Tuesday's wage data is expected to highlight moderate rates of wage growth.** Increasing skill shortages are expected to translate into higher wage inflation for certain pockets of the economy (e.g. construction), but not others (eg. retail, public administration) given the continued focus on cost control. Wages will be an area to watch next year.

**Reasonable Q3 numbers are one thing but the real issue is how things are shaping up going forward.** On this front, we are detecting more softness. Job ads have now started to decline and while unemployment benefit numbers have been falling, that rate of decline has eased over the past three months. Whether we are at a turning point remains to be seen. We don't think Q3 data will bear this turning point out, but the potential is there in Q4.

### MARKET IMPLICATIONS

With markets focused on offshore developments, a softer than expected labour market print would be unlikely to attract much market attention. With the October OCR Review showing limited appetite on the part of the RBNZ to act given global concerns, the hurdle to an OCR hike before the middle of 2012 remains high. It would require evidence of a more concerted labour market strengthening to prompt an earlier OCR hike than suggested by market pricing.

# QUARTERLY ECONOMIC FORECAST SUMMARY

## SUMMARY

The New Zealand economy is navigating four large events simultaneously: debt payback, rebalancing, the Canterbury earthquakes, and a terms of trade boost. At the same time there is growing downside risk to the global scene. The interaction of these shocks will see more volatility across the business cycle amidst a lower trend growth rate. We've pencilled in around 3 percent growth over the next two years and continue to characterise the outlook as one of "grumpy growth" that is coming off a low base. A better national balance sheet is a precursor to a strong pro-cyclical upswing and we are not there yet. But progress is being made.

## THE BIG PICTURE

**The economy is being affected by four major shocks simultaneously.** We noted these in our July 2011 Quarterly Economic Forecasts and they remain material influences on the outlook.

- **Getting our balance sheet in order.** Our national balance sheet remains weak. The net international liability position is 70 percent of GDP. The household savings rate is barely positive, although there has been a \$13bn turnaround from housing equity withdrawal since 2007. Increased saving by households and farmers will be at the expense of growth in the near term, but is essential for sustainable medium-term growth.
- **Rebalancing: earning a buck before we spend one.** The economy remains lopsided with excessive concentration in spendthrift activity, and this is at the expense of earning. Since 2004 the tradable sector has gone backwards and income growth has not kept up with spending. It will take years for resources (i.e. labour and capital) to respond to different price signals, for opportunities to be unlocked and the DNA of society to change. This means we are set to see some job displacement in certain sectors over the coming year in response to structural and cyclical challenges, with these resources inevitably remobilised to others.
- **A positive income shock.** We're seeing structurally higher demand for commodities, which is manifesting via our goods terms of trade hitting a 37 year high. Asia is increasingly relevant for New Zealand as an export market (accounting for 39 percent of merchandise exports) and we're getting better connected in regard to the Asian region, with a free trade agreement with India being negotiated at present.
- **The Canterbury earthquakes.** The impact channels are endless. A lot of wealth has been destroyed. Canterbury's population will not be the

same. There will eventually be a rebuild bigger than Ben Hur, though the ground needs to stop shaking first. Over time the costs of Canterbury will hit consumers' pockets via increased EQC levies, higher insurance premiums and less government spending in other areas.

**These four shocks are complementary in some facets but opposing in others.** The income shock is helping to get our balance sheet back in order via income generation. Conversely, rebuilding Canterbury will involve dedicating huge amounts of resources to rebuilding domestic capital (i.e. housing and infrastructure) at a time we're also supposed to be investing in other regions and sectors.

**The interaction of these shocks will see more volatility across the business cycle amidst a lower trend growth rate.** While our forecasts portray a fairly smooth path of economic activity going forward, the reality is likely to be very different, considering the multitude of cyclical and structural influences, not to mention the high degree of economic tensions, at play. And while we see growth, it is coming off a low base so in level terms will take time to get critical mass.

**An uncertain global scene complicates the picture further.** Suffice to say that while the global economy is still moving forward at present, challenges abound. **For New Zealand, we're closely watching the five C's, namely confidence, commodity prices, China, the currency, and the cost of credit.**

- **Confidence.** Global lead indicators have weakened of late. While we've seen some softening in New Zealand's confidence indicators, the levels remain healthy – for now. But the trend is easing and we are detecting more caution.
- **Commodity prices.** They've softened but remain at historically high levels. We are assuming this remains the case – a crucial assumption and by no means a sure thing.
- **China.** A strong Chinese economy is good for the New Zealand (and world) economy. The realignment in Chinese activity towards domestically driven expansion may affect our other major trading partners, notably Australia. Increased spending by Chinese households provides opportunities for New Zealand's agricultural exports. However, questions surround how durable China's outlook can remain in the absence of a pick-up in domestic demand in the US and Europe.
- **Currency.** The NZD typically acts as a "shock absorber" and is around 6 US cents down from its August high. At around 82 US cents, however, the NZD is almost 35 percent above post 1990

## QUARTERLY ECONOMIC FORECAST SUMMARY

averages against the USD (15 percent above average on a TWI basis). High commodity prices provide an offset to a high currency, but the non-commodity exporting sectors of the economy, namely tourism and manufacturing, will feel the brunt. On the whole, the currency is flip-flopping but it's acting as a key shock absorber to global developments. It's a safety valve pockets of Europe would love to have.

- **Cost of credit.** The potential for a partial Greek default has sent shock waves through funding markets. The major local banks remain well funded, but the longer the turmoil persists, the greater the likelihood that higher funding costs will need to be built into retail interest rates. The cost of borrowing internationally remains expensive and is a key source of vulnerability to a nation that has a large external borrowing requirement.

**The balance of risks around our activity forecasts are predominantly to the downside.** Tail risks posed by a global downturn are becoming increasingly probable. Greater global uncertainty could also scupper domestic momentum by causing local firms to re-evaluate their employment and investment plans.

### GLOBAL DEVELOPMENTS REMAIN KEY

Across our key trading partners, we expect Europe to slip into recession in a technical sense in H1 2012, the US to avert one, China to remain solid, and Australia to pick up off lows experienced in early 2011. **We are forecasting trading partner growth of 3.9 percent in calendar 2012. This still looks respectable on the face of it, though the qualitative assessment says otherwise.** We've got our fingers, ankles and toes crossed that the European sovereign debt crisis does not turn into a global recession in 2012. But the risks are obvious. Tail risks from a structural overhang of global debt will take years to overcome, and Western economies face a period of lower trend growth. Robust growth from emerging economies will provide an offset to some extent, but we are cautious over how much they can be insulated from a slowdown in growth in the developed world.

### COMMODITY PRICES NOT TO CRASH

**The historical pattern has been for commodity prices to come under pressure during periods of duress and uncertainty.** Based on this, you would expect New Zealand's key commodity export prices to be falling like a stone. Certainly the past few months have seen commodity prices ease, but from extraordinary highs. So why aren't New Zealand's commodity prices crashing? The global scene is weaker, but a repeat of the GFC is not expected as

yet. Furthermore, the major demand-side driver for our commodities has come from emerging market economies, which are expected to be less damaged by a slowdown in Europe. The cost of production is up on many fronts, both here and in competing suppliers. **We are optimistic that the long-term trend for commodities is up. However, we would caution against excessive hype.** There will be consumer price resistance, unfriendly government intervention, other substitutes becoming viable, and a supply-side response to strong prices.

### THE FISCAL STRAITJACKET

Any new government is in a fiscal straitjacket for a decade. With a record fiscal deficit in 2010/11 and rising debt, the kitty is empty. Fiscal policy will be contractionary for five years at least. Such austerity will present an economic headwind, but will keep interest rates lower than otherwise. Relative to global peers our political system, and the parties within it, look more cognisant of the key economic issues, including saving and rebalancing.

### HIGHER INFLATION TO GREASE THE WHEELS

We have an inflation trajectory averaging 2¾ percent over the forecast horizon, which the RBNZ will take umbrage at, given the 2 percent midpoint of the policy target band. **To us, slightly higher inflation outcomes will be a natural by-product (or sacrificial pawn) of navigating multiple shocks and greasing the wheels of the economy through such frictions.** Eventually, inflation "expectations" will need to be re-anchored closer to 2 percent, but it's beyond this forecast horizon.

### MONETARY CONDITIONS TO BE AFFECTED BY GLOBAL EVENTS

**Our core view is for a mid-2012 start to OCR increases, but the risk profile is clearly towards a later increase in the OCR as opposed to sooner moves.** With the OCR on hold for longer, expect short-end interest rates to be subdued. Long-end interest rates are also likely to remain lower for longer, in line with global rates.

**Global wobbles will throw the NZD around in the near-term.** However, absent a repeat of the GFC, we think the downside in the NZD is more limited due to ongoing demand from reinsurance and commodity earnings conversion flows. Beyond that our key judgement is that the USD faces significant structural headwinds, and if the USD is lower, the NZD is higher by default. We see NZD picking up next year on our expectation that the New Zealand economy is set to outgrow a lot of other developed economies, and helped by the RBNZ lifting interest rates.

# INTEREST RATE STRATEGY

## SUMMARY

The pendulum of global optimism swung even further into positive territory last week on the European debt "plan". But significant challenges lie ahead, and we may yet see optimism fade as further details emerge. Cracks are already emerging, and Italy is back in the spotlight again. The tone of US data has improved, bolstering sentiment, but "Fedspeak" is suggestive of more easing, which should cap US bond yields. Closer to home, all eyes are on the RBA tomorrow – markets expect a lot, and we need to see a cut.

## MARKET THEMES

- Global market sentiment was positive in the lead-up to last week's European announcements, only to improve further after the fact. But optimism appears to be fading, and we remain cautious.
- Event risk is high this week, with the RBA meeting, NZ jobs data, the FOMC, US non-farm payrolls and the G20 summit all scheduled.

## REVIEW AND OUTLOOK

**Global risks remain at centre stage**, and with optimism on a high note, we consider that it is unlikely we see further improvement. By contrast, there is ample scope for markets to become disappointed – particularly in relation to the European debt "plan". We identified early on that **Italy and Spain were the Achilles heel of the plan** – these economies are too big to save, and as such it is crucial that both make credible progress on fiscal reform. But cracks are already appearing. Indeed, **Italy's bond auction on Friday came up short with 10yr bonds being issued at a euro-era high of 6.06 percent**. This is a worrying sign, as Italy simply does not have the nominal growth to sustain yields this high. Europe's troubles are far from over, and as sentiment fades, we would expect to see some moderation in global bond yields.

Global risk appetite has been the major driver of interest rates of late, but **as we look to this week, monetary policy and data may be more influential**. The RBNZ is out of action, but that view might be challenged by HLFS data later this week. We also have November RBA and FOMC meetings this week. A 25bp cut is likely in Australia, while we wouldn't rule out additional easing in the US. **The trouble is, the Aussie market is not just fully priced for a cut, it is expecting a series of cuts, so could be sorely disappointed on a "one and done" style rhetoric**. By contrast, the US market is not so insistent, and we suspect is poised to rally on more easing. But **with global long end yields at the top of recent trading ranges, monetary**

**policy actions which are influential at the short end may well get swamped by shifting global sentiment – and in our view that risk is very much to the downside.**

## PREFERRED BORROWING STRATEGIES

Swap rates are sitting toward the upper end of recent trading ranges, having followed global rates higher, which in turn rose on optimism that Europe is making headway on its debt issues. We have some serious reservations about the European "plan" and expect the tone to shift from optimism to disappointment over coming weeks. If this occurs we are likely to see the yield curve flatten and rates fall, especially at the short end. Although we see risks of upside surprises this week (the RBA meeting and NZ jobs data later in the week) which may see short end swap yields rise, this is countered by the RBNZ's cautious tone. The bank made it clear at last week's OCR Review that it is in no hurry to raise rates, and with significant risks to the downside, we do not believe the case for fixing at current levels is sound. We prefer to remain floating, enjoying low rates for longer.

## GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	Mild tightening bias, but market fully priced.
NZ data	↔/↑	Upside risk to HLFS
Fed Funds / front end	↔/↓	"Fedspeak" suggests possibility of more easing.
RBA	↔/↑	Likely to cut, but fully priced in, so no move would bitterly disappoint.
US 10 year	↔/↓	US data has improved, but global confidence "toppy".
NZ swap curve	↔/↓	Flattening likely as NZ and global factors diverge.
Flow	↔/↑	Pay side has dominated.
Technicals	↔/↑	NZGS 12/17s cheap.

## MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 8-Dec-11	+1	+2
Thu 26-Jan-12	+4	+4
Thu 8-Mar-12	+10	+10
Thu 26-Apr-12	+17	+17
Thu 14-Jun-12	+19	+25
Thu 26-Jul-12	+22	+33
Thu 13-Sep-12	Not forecast	+39

## TRADING THEMES WE FAVOUR AT PRESENT

We prefer to be generally long at the long end on the view that global optimism has largely peaked. Given significant hurdles ahead (including more details on the Europe plan, Spanish elections, Italian yields), we prefer to be long at current levels. By contrast, the risk is that the RBA disappoints, and the risks around NZ jobs data are skewed to the upside, so we prefer tactical flatteners.

# CURRENCY STRATEGY

## SUMMARY

The EU summit finally delivered the prescription the FX markets were looking for, but already the “Europhoria” is waning as the plan is exposed to deeper scrutiny. This was never going to be a quick fix so we expect renewed weakness to risk trades and the EUR to emerge. Stellar performance from global equity markets will see antipodean fund managers needing to top up hedges at month end. An expected RBA rate cut tomorrow should see AUD head lower.

## MARKET THEMES

- “Europhoria” around the European “solution” will be tested this week, undermining EUR.
- NZD and AUD to be supported today by fund manager buying.
- RBA likely to cut rates, removing support for AUD.
- FOMC may leave the door open for further easing.

## REVIEW AND OUTLOOK

**European leaders would have us believe all has been solved. However talk is cheap and markets will become wary if no action follows.** The delay in getting an outcome from the summit has pushed back our “risk on, then risk off” timetable that we were looking for last week. Indeed the size of the response by the currency markets suggests the euphoric “risk on” may last longer than originally expected. A lack of action will begin to undermine the EUR probably later this week or early next week. US data may assist this process.

**The MSCI World Equity Index is up 11 percent for the month of October, forcing NZ and Australian fund managers to top up currency hedges today.** While some managers will have been “averaging in” many will need to buy NZD and AUD in good size in London today. However any gains from these flows will likely be undone tomorrow as the RBA moves to trim official interest rates, removing some support for the AUD.

**NZDAUD has suffered in recent weeks but now looks well supported in the low 0.76s.** The move down in this cross was an outworking of a stronger relative performance by the AUD but since the cross has been in the low 0.76s we have seen increasing interest to specifically target long NZD vs short AUD positions. An RBA rate cut tomorrow and decent NZ labour market data will provide the catalyst for a move higher in NZDAUD this week.

**US data continues to print positively but the FOMC may well signal preparedness for more easing.** Despite the improving data backdrop as well

as significant reductions in speculative USD shorts (indeed this space has turned long) during the last month, it seems the weight of reserve diversification has kept a lid on the USD. There is also a view that the US private sector is significantly more advanced through the deleveraging process.

**China’s growth outlook has become an increasing focus with chatter that a hard landing may be possible.** It seems that Chinese authorities may tweak a more pre-emptive stance towards policy implementation. With the next direction probably an easing, growth fears may begin to undermine the risk currencies.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Close to our fair value estimates.
Yield	↑	NZD yield curve is positive and AUD inverted.
Commodities	↔	Getting a recent lift.
Partial indicators	↔	Data showing signs of slowing in NZ.
Technicals	↔↑	Support at 0.7630.
Sentiment	↑	See NZD undervalued vs AUD.
Other	↔	Global sentiment big driver.
<b>On balance</b>	↔/↑	<b>RBA will provide support to cross. Sentiment sees lazy buyers coming forward.</b>
NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔	Close to short term FV.
Yield	↑	Official rates to stay low but investable yields support.
Commodities	↔	Commodities stable.
Risk aversion	↔↑	Positive US data and short covering leads to risk on.
Partial indicators	↔	NZ data now mixed. US data improving.
Technicals	↔↑	Trending up.
AUD	↓	RBA cut to undermine AUD.
Sentiment	↑↔↓	EU debt crisis sentiment driving currencies in all directions.
Other	↑	Fund manager hedging to provide short term support.
<b>On balance</b>	↔	<b>EU situation causing nervous and skittish moves.</b>

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
31-Oct	NZ	Building Permits MoM - SEP	--	-17%(a)	10:45
	AU	AiG Perf of Construction Index - OCT	--	30	11:30
	AU	RPData-Rismark House Px Raw - SEP	--	-0.1%	12:30
	AU	RPData-Rismark House Px S.A - SEP	--	-0.4%	12:30
	AU	TD Securities Inflation MoM% - OCT	--	0.1%	12:30
	AU	TD Securities Inflation YoY% - OCT	--	2.8%	12:30
	UK	Hometrack Housing Survey (MoM) - OCT	--	-0.1%	13:01
	UK	Hometrack Housing Survey (YoY) - OCT	--	-3.5%	13:01
	AU	Private Sector Credit MoM%	0.3%	0.2%	13:30
	AU	Private Sector Credit YoY% - SEP	3.1%	3.0%	13:30
	NZ	Money Supply M3 YoY - SEP	--	5.5%	15:00
	NZ	RBNZ Credit PSC(R) excl repos (YoY) - SEP	--	1.0%	15:00
	GE	Retail Sales (MoM) - SEP	1.0%	-2.7%	20:00
	GE	Retail Sales (YoY) - SEP	1.6%	2.2%	20:00
	UK	Net Consumer Credit - SEP	£0.4B	£0.5B	22:30
	UK	Net Lending Sec. on Dwellings - SEP	£0.6B	£0.6B	22:30
	UK	Mortgage Approvals - SEP	50.6K	52.4K	22:30
	UK	M4 Money Supply (MoM) - SEP	--	-0.2%	22:30
	UK	M4 Money Supply (YoY) - SEP	--	-0.6%	22:30
	EC	Eurozone CPI Estimate (YoY) - OCT	2.9%	3.0%	23:00
	EC	Eurozone Unemployment Rate - SEP	10.0%	10.0%	23:00
	CH	Leading Index - SEP	--	101.83	30-31 Oct
	UK	BoE Housing Equity Withdrawal - 2Q	-£6.0B	-£5.8B	31 Oct-5 Nov
1-Nov	US	Chicago Purchasing Manager - OCT	59.0	60.4	02:45
	US	Dallas Fed Manf. Activity - OCT	-5.0	-14.4	03:30
	NZ	Average Hourly Earnings QoQ - 3Q	--	1.2%	10:45
	NZ	Private Wages Exc Overtime QoQ - 3Q	0.9%	0.5%	10:45
	NZ	Private Wages Inc Overtime QoQ - 3Q	0.5%	0.5%	10:45
	AU	AiG Performance of Mfg Index - OCT	--	42.3	11:30
	NZ	ANZ Commodity Price - OCT	--	-1.3%	13:00
	AU	House Price Index QoQ - 3Q	-1.5%	-0.1%	13:30
	AU	House Price Index YoY - 3Q	-1.8%	-1.9%	13:30
	CH	PMI Manufacturing - OCT	51.8	51.2	14:00
	CH	HSBC Manufacturing PMI - OCT	--	49.9	15:30
	AU	RBA CASH TARGET - NOV	4.50%	4.75%	16:30
	AU	RBA Commodity Price Index - OCT	--	115.4	18:30
	AU	RBA Commodity Index SDR YoY% - OCT	--	26.6%	18:30
	UK	Nat'wide House prices sa (MoM) - OCT	0.0%	0.1%	20:00
	UK	Nat'wide House prices nsa (YoY) - OCT	0.5%	-0.3%	20:00
	UK	PMI Manufacturing - OCT	50.0	51.1	22:30
	UK	GDP (QoQ) - 3Q A	0.3%	0.1%	22:30
	UK	GDP (YoY) - 3Q A	0.4%	0.6%	22:30
	UK	Index of Services (MoM) - AUG	0.0%	0.2%	22:30
	UK	Index of Services (3mth/3mth) - AUG	0.5%	0.9%	22:30
	UK	Halifax House Prices sa (MoM) - OCT	0.1%	-0.5%	1-5 Nov
	UK	Halifax House Price 3Mths/Year - OCT	-2.3%	-2.3%	1-5 Nov
2-Nov	US	Construction Spending MoM - SEP	0.3%	1.4%	03:00
	US	ISM Manufacturing - OCT	52.0	51.6	03:00

Continued on following page

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
2-Nov	US	ISM Prices Paid - OCT	55.0	56.0	03:00
	US	Total Vehicle Sales - OCT	13.20M	13.04M	10:00
	US	Domestic Vehicle Sales - OCT	10.30M	10.17M	10:00
	AU	HIA New Home Sales (MoM) - SEP	-	1.1%	13:00
	AU	Building Approvals (MoM) - SEP	-4.9%	11.4%	13:30
	AU	Building Approvals (YoY) - SEP	0.1%	-5.5%	13:30
	GE	Unemployment Change (000's) - OCT	-10K	-26K	21:55
	GE	Unemployment Rate (s.a) - OCT	6.9%	6.9%	21:55
	GE	PMI Manufacturing - OCT F	48.9	48.9	21:55
	EC	PMI Manufacturing - OCT F	47.3	47.3	22:00
	UK	PMI Construction - OCT	50.0	50.1	22:30
3-Nov	US	MBA Mortgage Applications - 47027	-	4.9%	00:00
	US	ADP Employment Change - OCT	100K	91K	01:15
	US	FOMC Rate Decision - NOV	0.25%	0.25%	05:30
	NZ	Unemployment Rate - 3Q	6.4%	6.5%	10:45
	NZ	Employment Change (QoQ) - 3Q	0.6%	0.0%	10:45
	NZ	Employment Change (YoY) - 3Q	1.6%	2.0%	10:45
	NZ	Participation Rate (QoQ) - 3Q	68.5%	68.4%	10:45
	AU	AiG Performance of Service Index - OCT	-	50.3	11:30
	AU	Retail Sales s.a. (MoM) - SEP	0.4%	0.6%	13:30
	AU	Retail Sales Ex Inflation(QoQ) - 3Q	0.6%	0.3%	13:30
	CH	China Non-manufacturing PMI - OCT	-	59.3	14:00
	CH	China HSBC Services PMI - OCT	-	53.0	15:30
	UK	PMI Services - OCT	52.0	52.9	22:30
	UK	Official Reserves (Changes) - OCT	-	-\$2444M	22:30
4-Nov	US	Nonfarm Productivity - 3Q P	2.8%	-0.7%	01:30
	US	Unit Labor Costs - 3Q P	-0.5%	3.3%	01:30
	US	Initial Jobless Claims - 29-Oct	400K	402K	01:30
	US	Continuing Claims - 22-Oct	3700K	3645K	01:30
	EC	ECB Announces Interest Rates - NOV	1.50%	1.50%	01:45
	US	ISM Non-Manf. Composite - OCT	53.6	53.0	03:00
	US	Factory Orders - SEP	-0.1%	-0.2%	03:00
	GE	PMI Services - OCT F	52.1	52.1	20:55
	EC	PMI Composite - OCT F	47.2	47.2	22:00
	EC	PMI Services - OCT F	47.2	47.2	22:00
	EC	Eurozone PPI (MoM) - SEP	0.2%	-0.1%	23:00
	EC	Eurozone PPI (YoY) - SEP	5.8%	5.9%	23:00
	UK	New Car Registrations (YoY) - OCT	-	-0.8%	4-5 Nov
5-Nov	GE	Factory Orders YoY (nsa) - SEP	7.5%	3.9%	00:00
	GE	Factory Orders MoM (sa) - SEP	0.1%	-1.4%	00:00
	US	Change in Nonfarm Payrolls - OCT	95K	103K	01:30
	US	Change in Private Payrolls - OCT	125K	137K	01:30
	US	Change in Manufact. Payrolls - OCT	4K	-13K	01:30
	US	Unemployment Rate - OCT	9.1%	9.1%	01:30
	US	Avg Hourly Earning MOM All Emp - OCT	0.2%	0.2%	01:30
	US	Avg Hourly Earning YOY All Emp - OCT	1.9%	1.9%	01:30
	US	Chg in Household Survey Empl - OCT	-	398	01:30

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.

Sources: Dow Jones, Reuters, Bloomberg, ANZ, National Bank. All \$ values in local currency

Note: All surveys are preliminary and subject to change

## LOCAL DATA WATCH

**Key focus over the next few weeks:** Global events remain a key influence, with events in Europe still expected to set the short-term direction for markets ahead of the G20 meetings. Last week's fiscal update reaffirmed that fiscal restraint will leave more of the heavy lifting to monetary policy. The October OCR confirmed that while the RBNZ are acutely aware of global challenges, the OCR would probably need to be moving higher if solely based on domestic considerations. The relative resilience of the New Zealand economy remains despite a pullback in business confidence and the downward revision to the 2011/12 milk price payout, but this will be further put to the test with this week's labour market and commodity price data. We expect the first OCR hike in June 2012, but this is conditional on the global outlook improving. The spirit of our assessment is for a gradual path of policy tightening and a historically low OCR endpoint.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 31 Oct (3:00pm)	RBNZ Credit Aggregates - September	Deleveraging	Low rates of annual credit growth for firms and households, with agriculture credit down slightly on 12 months earlier.
Tue 1 Nov (10:45am)	Labour Cost Index – 2011Q3	Contained	A 0.5 percent quarterly increase is expected for salary and ordinary time wage rates (2.0 percent y/y).
Tue 1 Nov (10:45am)	Quarterly Employment Survey – 2011Q3	Firming	Filled jobs and paid hours are expected to rise 0.5 percent s.a. Average hourly earnings should increase 0.6 percent q/q.
Tue 1 Nov (1:00pm)	ANZ Commodity Price Index – Oct	- -	- -
Wed 2 Nov (early am)	<i>GlobalDairyTrade</i> auction	Holding	We expect USD dairy prices to stabilise after recent declines. The level is still high by historical standards.
Thur 3 Nov (10:45am)	Household Labour Force Survey – 2011Q3	Firming	A 0.2 percent increase in employment is expected (1.2 percent y/y). The unemployment rate is forecast to ease to 6.4 percent.
Wed 9 Nov (10:45am)	Electronic Card Transactions - Oct	Up	We expect a 0.6 percent increase in retail ECT spending. A bigger GDP impact is in store than suggested by the ECT data.
Thur 10 Nov (1:00pm)	ANZ Consumer Confidence - Nov	- -	- -
Fri 11 <sup>th</sup> Nov (10:45am)	Food Price Index- Oct	Up	We expect a 0.4 percent monthly increase, underpinned by higher prices for meat and groceries.
Mon 14 Nov (10:45am)	Retail Trade Survey – 2011Q3	RWC boost	A 0.8 and 1.4 percent quarterly increase is expected for total and core values. Core volumes are expected to rise 0.9 percent.
Wed 16 Nov (1:00pm)	National Bank Regional Trends	-	- -
Thur 17 Nov (10:45am)	Capital Goods Price Index – 2011Q3	Rising	A 0.5 percent increase is expected, underpinned by higher construction costs.
Thur 17 Nov (10:45am)	Producer Price Index – 2011Q3	Cost-push	Higher electricity prices contribute to a 1.2 percent increase in input prices and a 0.8 percent increase in output prices.
Tue 22 Nov (10:45am)	International Travel and Migration -October	Turning	A net permanent and long-term outflow of 300 persons is forecast. Visitor arrival numbers will fall around 15 percent s.a.
Thur 24 Nov (10:45am)	Overseas Merchandise Trade - October	Down	A monthly trade deficit of \$400m is expected, with the annual trade surplus down to around \$540m.
<b>On Balance</b>		<b>Local vs global</b>	<b>Domestic gauges for H2 should remain positive but global concerns suggest caution for early 2012.</b>

## KEY FORECASTS AND RATES

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
GDP (% qoq)	0.9	0.1	<b>0.8</b>	<b>1.2</b>	<b>0.2</b>	<b>0.5</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>
GDP (% yoy)	1.7	1.5	<b>2.4</b>	<b>3.0</b>	<b>2.3</b>	<b>2.7</b>	<b>2.9</b>	<b>2.7</b>	<b>3.4</b>	<b>3.7</b>
CPI (% qoq)	0.8	1.0	0.4	<b>0.3</b>	<b>0.6</b>	<b>0.7</b>	<b>0.9</b>	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>
CPI (% yoy)	4.5	5.3	4.6	<b>2.5</b>	<b>2.3</b>	<b>2.1</b>	<b>2.5</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>
Employment (% qoq)	1.3	0.0	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.6</b>	<b>0.6</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>
Employment (% yoy)	1.8	2.0	<b>1.2</b>	<b>1.7</b>	<b>0.7</b>	<b>1.2</b>	<b>1.6</b>	<b>1.6</b>	<b>1.7</b>	<b>1.4</b>
Unemployment Rate (% sa)	6.5	6.5	<b>6.4</b>	<b>6.4</b>	<b>6.4</b>	<b>6.1</b>	<b>5.8</b>	<b>5.9</b>	<b>5.9</b>	<b>5.8</b>
Current Account (% GDP)	-3.6	-3.7	<b>-3.9</b>	<b>-3.3</b>	<b>-3.5</b>	<b>-3.6</b>	<b>-4.0</b>	<b>-4.4</b>	<b>-4.5</b>	<b>-4.5</b>
Terms of Trade (% qoq)	0.8	2.3	<b>1.5</b>	<b>2.1</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.7</b>	<b>-0.7</b>
Terms of Trade (% yoy)	6.7	7.0	<b>5.5</b>	<b>6.8</b>	<b>5.1</b>	<b>2.0</b>	<b>-0.3</b>	<b>-3.1</b>	<b>-2.9</b>	<b>-2.9</b>

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11
Retail ECT (% mom)	2.5	-0.2	1.6	1.4	-0.7	1.1	0.3	-0.5	0.4	..
Retail ECT (% yoy)	5.7	6.2	6.6	10.0	6.8	9.0	8.0	8.4	7.5	..
Credit Card Billings (% mom)	3.9	-0.5	-1.0	1.8	0.4	0.5	1.1	-1.4	1.6	..
Credit Card Billings (% yoy)	6.2	5.8	2.1	6.5	5.5	4.6	7.3	4.7	5.2	..
Car registrations (% mom)	1.3	-2.0	0.0	-5.5	3.6	-2.0	-1.0	6.5	-10.8	..
Car registrations (% yoy)	6.8	2.8	-1.0	-10.5	-3.7	-9.5	-6.0	1.9	-12.2	..
Building consents (% mom)	9.1	-9.7	2.4	-1.1	3.4	-1.2	13.6	16.7	-17.1	..
Building consents (% yoy)	-14.7	-28.8	-26.1	-32.5	-21.8	-25.3	-15.6	18.7	-3.9	..
REINZ House Price Index (% yoy)	-2.6	-0.7	-1.8	-0.4	-0.7	0.0	0.5	0.7	2.7	..
Household Lending Growth (% mom)	0.1	0.1	-0.1	0.2	0.1	0.1	0.2	0.1	..	..
Household Lending Growth (% yoy)	1.5	1.5	1.2	1.2	1.2	1.2	1.2	1.1	..	..
ANZ Roy Morgan Consumer Confidence	117.1	108.1	101.4	101.4	103.3	112.5	109.4	113.3	112.6	112.2
NBNZ Business Confidence	..	34.5	-8.7	14.2	38.3	46.5	47.6	34.4	30.3	13.2
NBNZ Own Activity Outlook	..	36.6	14.7	29.5	39.7	38.7	43.7	43.3	35.4	..
Trade Balance (\$m)	9	184	583	1158	550	201	102	-697	-751	..
Trade Balance (\$m ann)	909	765	741	1238	1019	999	1287	1020	724	..
ANZ World Commodity Price Index (% mom)	4.3	2.7	4.7	1.6	0.4	-1.2	-0.2	-1.4	-1.3	..
ANZ World Commodity Price Index (% yoy)	16.2	20.3	23.5	19.8	19.6	20.6	22.2	22.0	17.3	..
Net migration (sa)	420	440	-540	-120	-290	-280	-210	120	-660	..
Net migration (annual)	8689	8249	6554	5508	4625	3867	2867	2257	773	..

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

## KEY MARKET FORECASTS AND RATES

FX RATES	ACTUAL			Forecast (end month)						
	Aug-11	Sep-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZD/USD	0.854	0.761	0.820	0.77	0.80	0.83	0.86	0.89	0.90	0.90
NZD/AUD	0.798	0.788	0.767	0.79	0.80	0.79	0.78	0.81	0.82	0.82
NZD/EUR	0.594	0.569	0.580	0.57	0.58	0.59	0.61	0.61	0.62	0.62
NZD/JPY	65.48	58.67	62.16	57.8	60.0	59.8	61.9	64.1	63.0	63.0
NZD/GBP	0.526	0.489	0.509	0.50	0.51	0.52	0.53	0.55	0.55	0.55
NZ\$ TWI	73.0	68.3	70.4	68.4	70.3	71.3	72.8	74.8	75.4	75.4
INTEREST RATES	Aug-11	Sep-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.25	3.50	3.75
NZ 90 day bill	2.99	2.86	2.72	2.70	2.70	3.20	3.50	3.50	3.90	4.00
NZ 10-yr bond	4.52	4.42	4.52	4.30	4.30	4.30	4.30	4.40	4.40	4.60
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
US 3-mth	0.33	0.37	0.43	0.35	0.35	0.35	0.35	0.35	0.35	0.35
AU Cash Rate	4.75	4.75	4.75	4.50	4.25	4.25	4.25	4.25	4.25	4.25
AU 3-mth	4.87	4.92	4.75	4.70	4.60	4.60	4.50	4.50	4.50	4.50

Forecasts finalised as at 28 October 2011

	28 Sep	24 Oct	25 Oct	26 Oct	27 Oct	28 Oct
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.83	2.72	2.69	2.70	2.71	2.73
NZGB 04/13	2.87	2.83	2.78	2.68	2.76	2.82
NZGB 04/15	3.32	3.40	3.35	3.25	3.32	3.38
NZGB 03/19	4.10	4.39	4.33	4.19	4.25	4.32
NZGB 05/21	4.32	4.62	4.57	4.41	4.46	4.54
2 year swap	3.13	3.17	3.15	3.07	3.14	3.19
5 year swap	3.76	3.99	3.98	3.88	3.95	4.01
RBNZ TWI	69.6	70.0	70.0	69.1	69.7	70.4
NZD/USD	0.7852	0.8049	0.8069	0.7956	0.8045	0.8192
NZD/AUD	0.7962	0.7761	0.7699	0.7678	0.7680	0.7683
NZD/JPY	60.10	61.39	61.40	60.48	61.19	62.14
NZD/GBP	0.5025	0.5045	0.5043	0.4965	0.5027	0.5095
NZD/EUR	0.5792	0.5800	0.5797	0.5717	0.5763	0.5781
AUD/USD	0.9862	1.0371	1.0481	1.0362	1.0475	1.0662
EUR/USD	1.3557	1.3878	1.3919	1.3917	1.3959	1.4170
USD/JPY	76.54	76.27	76.09	76.02	76.06	75.85
GBP/USD	1.5627	1.5955	1.5999	1.6023	1.6003	1.6080
Oil (US\$/bbl)	84.08	87.24	91.07	93.00	90.31	94.02
Gold (US\$/oz)	1644.95	1641.10	1657.40	1711.25	1723.95	1742.55
Electricity (Haywards)	9.27	5.33	6.55	4.50	7.66	10.47
Baltic Dry Freight Index	1920	2153	2161	2145	2091	2018
Milk futures (USD)	148	148	148	148	146.5	146.5

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