

NON-TRADABLE EX-HOUSING FOCUS

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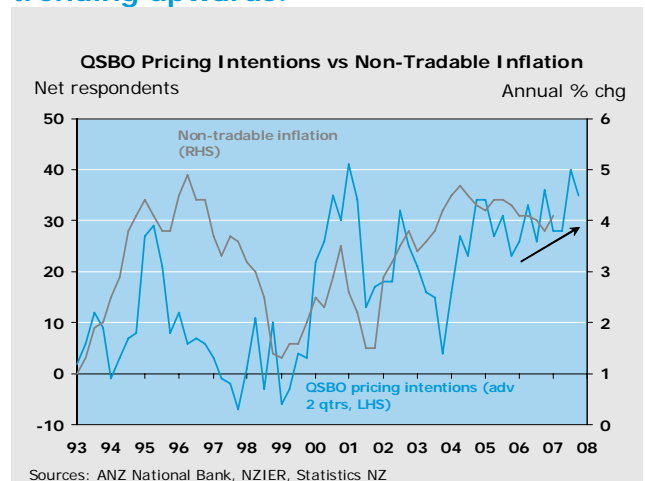
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The economy looks to be turning. But will it be enough to ease inflationary pressure?



Pricing intentions remain elevated and are trending upwards.



ECONOMIC OVERVIEW

Confidence gauges have fallen and imply growth slowing over the year ahead. However, consumer spending remains robust and resource use tight. The June quarter CPI is now key when considering a potential July hike, although we find it difficult to go past the high currency.

What's ahead...

- NZ June quarter CPI (Monday 10.45 NZST). We expect headline CPI to increase by 0.8 percent, taking annual growth to 1.8 percent. However, annual non-tradable inflation is expected to remain elevated at over 4 percent.
- NZ June External Migration (Friday 10.45 NZST). PLT departures have trended upwards. Are overseas destinations becoming more attractive places to live?
- NZ June Credit Card Billings (Friday 15.00 NZST). Further fallout from higher mortgage rates is expected.

What's the view

Although it looks like the economy is gradually rolling over, the evidence to date is by no means cut and dry. On the one hand, there are indicators – particularly confidence gauges – that suggest the economy will slow over the remainder of this year. Headline business confidence did fall sharply in the June quarter – undoubtedly a response to the significant increases in interest rates and the record high currency. The weakness was across all sectors and regions – the first time in a while where weakness was this broad-based.

Even the housing market too finally looks to be slowing in response to higher interest rates. Conclusions from the June REINZ report were clouded by the fact the REINZ tightened up the reporting deadline for sales from its members, and it has been suggested that this biased the number of house sales lower. But even accounting for this, the housing market looks to have softened in June. Median house prices eased off their record high, and 3-monthly house price growth slowed to just 0.4 percent.

On the other hand, we know that pockets of the economy are well supported, pricing intentions remain worryingly elevated and resource use tight. May retail sales completely reversed the weakness recorded in April. While household spending is not likely to carry on at the record pace achieved in the March quarter, it remains robust and above the Reserve Bank's comfort levels. It is an environment where the Reserve Bank cannot afford to take their foot off the monetary policy brake.

Inflation remains the key factor shaping this business cycle. Pricing intentions, despite easing slightly in the June quarter, remain elevated. Indicators of resource pressures remain stretched,

with the difficulty in finding labour increasing and suggesting further pipeline wage pressure. The mammoth stimulus pending from commodity prices (dairy payout) and government spending only complicates the Reserve Bank's dilemma.

The gauges we monitor suggest economic activity will slow over the remainder of the year (refer page 3). But the question remains; will it be enough to ease inflationary pressure? Given a massive deterioration in productivity growth over the past five years, the supply side of the economy is clearly restrained and this implies a greater adjustment from the demand side.

Today's inflation report is shaping up as a bell-whether for the Reserve Bank in terms of how patient they can be. As noted in their June *Statement*, they have very little inflation headroom. The March quarter inflation report showed an ugly uplift in non-tradable inflation, and disconcertingly, signs of inflation becoming more broad-based and shifting beyond the housing sector with non-tradable ex-housing inflation rising 1.2 percent. Further evidence of this in the June quarter will give the central bank further palpitations.

It all seems a bit surreal to be thinking the Reserve Bank could hike again, given the level of the NZ dollar. But can the Reserve Bank ignore the currency? After all, if the economy weakens the NZD will surely take care of itself. With hindsight the Reserve Bank probably placed too much weight on it earlier in the tightening cycle. Yet there looks to be three differences this time around. The first is the absolute level. With the TWI setting all time highs, there is some real pain out in the export sector, at least for those 80 percent of exporters not related to the dairy sector! The second is the global backdrop, which remains carry trade centric, and it just looks like these traders are going to end up doing the Reserve Bank's work in terms of generating the slow-down, but unfortunately in the wrong part of the economy. The final difference is one of timing, with the closing date for submissions into the inquiry into the future monetary policy framework on the 19th of July. It's an inquiry where there could be some sensitivity around what monetary policy is doing to the currency.

Recent data...

- **NZIER QSBO (Jun qtr)**. Headline confidence fell dramatically in the June quarter. However, pricing intentions and indicators of resource pressure remain elevated.
- **REINZ housing data (Jun)**. Median house prices retreated to \$347,500 from \$350,000 in May, although annual growth remains high at 12.1 percent. House sales fell, while the median number of days to sell a house was unchanged at 30 days (29 days s.a.).
- **NZ Retail Sales (May)**. Headline sales rose 1.2 percent, completely reversing the fall in April. Core sales rose 0.8 percent, after a 0.9 percent fall last month.

TRACKING THE TURNING POINT

Leading indicators we monitor point to a slowing in growth over the second half of this year, even accounting for the pending surge in dairy prices. But the question remains whether it will be sufficient to alleviate inflation pressure. Expect the Reserve Bank to remain on edge.

A former US Fed Chairman once said, "use as many models as you can, but trust none of them." The same can be said of leading indicators for the economy. Taking this advice to heart, we track and monitor a range of leading indicators to help form our view on where the economy is heading, and more importantly to tell us whether a turning point in the cycle is coming.

Regular readers will be aware of our *Financial Conditions Index*, which we report on in our *Market Focus* periodically. We also use a range of other survey based indicators from our own National Bank *Business Outlook* (NBBO), the NZIER's Quarterly Survey of Business Opinion Survey (QSBO), and the Westpac McDermott Miller Consumer Confidence Index (WMM).

So what are our indicators saying about growth prospects ahead?

- The rebound in economic activity at the end of last year and into early this year was predicted by all the indicators.
- All indicators suggest a turn in the business cycle has been reached, with activity expected to moderate over the second half of this year.
- However, there is a wide divergence across the indicators. A range of estimates for annual GDP growth by the end of this year ranges from 4 percent, based on the QSBO composite index, to 1½ percent based on our *Financial Conditions Index*. The average across all the indicators points to growth of around 2 to 2¼ percent (annual percent change basis) by the December 2007 or March 2008 quarter. This is substantially weaker than the 3¼ percent growth forecast by the Reserve Bank in their June *Monetary Policy Statement*.
- The most optimistic indicator, based on the QSBO composite index (which includes own activity and employment intentions), gave a false reading in mid-2005. It was suggesting growth of around 5 percent when it turned out to be closer to 2½ percent.
- The most accurate indicators (with correlation coefficients in excess of 0.8 against GDP growth) are our *Financial Conditions Index* and our NBBO Composite Index (which includes own

activity, employment and investment intentions). Both these are pointing to sub-2 percent growth by year's end.

On balance, our leading indicators tell us that this economy will slow over the second half of this year. The key drivers of the coming slowdown are obvious – higher short-term interest rates courtesy of the three OCR hikes by the Reserve Bank so far this year, higher longer term yields courtesy of rising global interest rates, and a currency rising to new post-float highs.

What about the impact of the continuing surge in dairy prices? It is true that both the QSBO and WMM do not directly capture the exuberance of the dairy sector. But our NBBO does, and our *Financial Conditions Index* directly captures commodity prices. The fact that both these have shown to be the most accurate leading indicators to date, and still point to subdued growth ahead, suggest that conditions are sufficiently tight for the other sectors of the economy to offset the boom in the dairy sector.

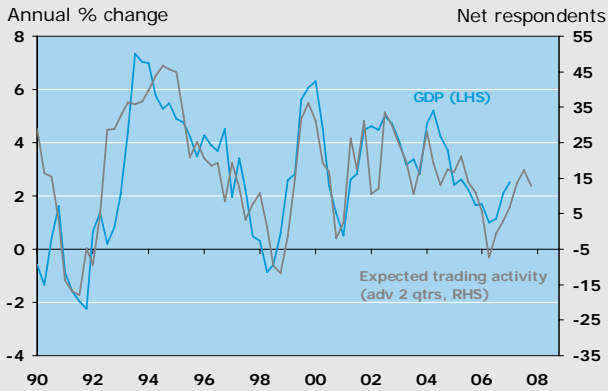
As we reported in last week's *Market Focus*, the real effective exchange rate measure across various export industries (which adjust for the impact of commodity prices weighted by the export destination) shows all other industries apart from dairy facing restrictive conditions. In short, a boom for 20 percent of our exports is not enough to offset the other 80 percent that are under the hammer.

For the Reserve Bank, an easing in growth will be welcome news. But there is a key question leading indicators are unable to address. They say nothing about the supply-side capacity of the economy. If the supply side capacity of the economy is restrained, a slow-down may not alleviate inflation. Certainly this has been the experience of the last couple of years with the economy recording 2.2 percent growth in calendar 2005 and 1.5 percent in 2006, yet inflation pressure rising! Looking at the Reserve Bank's June projections, they look overly optimistic on both the demand side of the economy (3¼ in the year to March 2008) and supply (3.0 percent).

The upshot

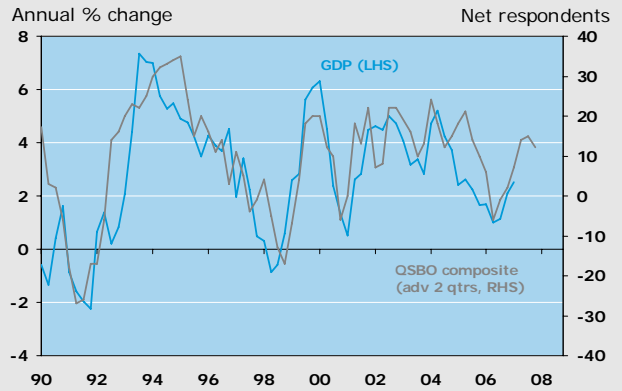
Leading indicators are pointing to a turn in the economic cycle, and growth of around 2 percent over the coming year. While welcomed by the Reserve Bank, such indicators say nothing about the supply-side capacity of the economy and implied impact on the output gap. Neither do such measures (excluding our *Financial Conditions Index*, which is more structural in nature) say anything about whether any moderation will be sustained for a considerable period. Expect the Reserve Bank to remain on edge for a while yet.

GDP vs QSBO expected trading activity



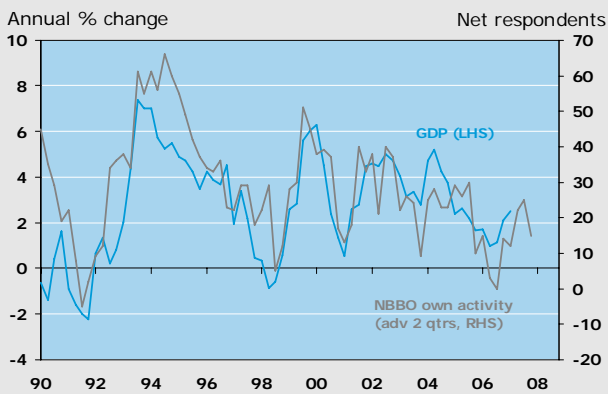
Sources: ANZ National Bank, Statistics NZ, NZIER

GDP vs QSBO composite index



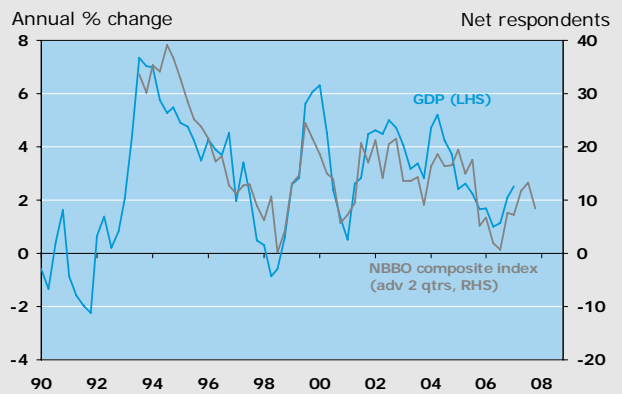
Sources: ANZ National Bank, Statistics NZ, NZIER

GDP vs NBBO own activity



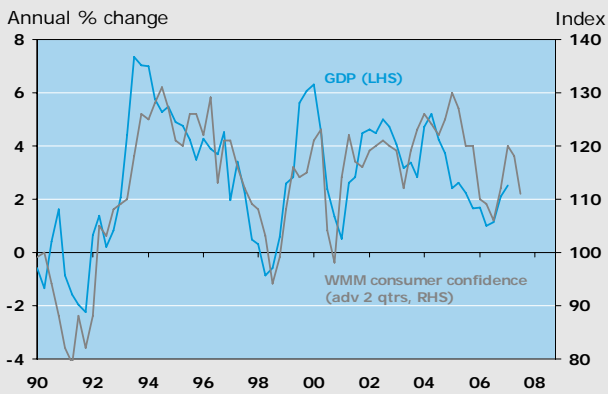
Sources: ANZ National Bank, Statistics NZ

GDP vs NBBO composite index



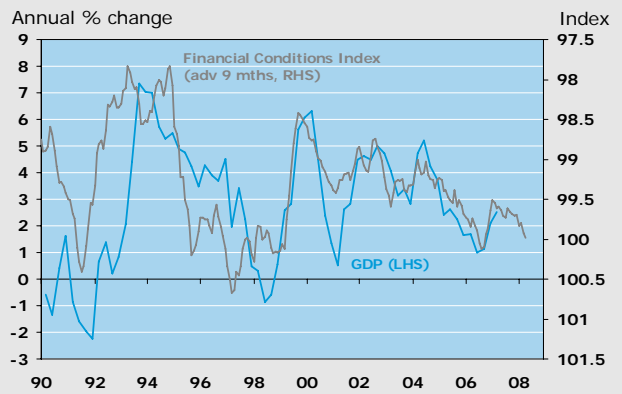
Sources: ANZ National Bank, Statistics NZ

GDP vs WMM consumer confidence



Sources: ANZ National Bank, Statistics NZ, Westpac McDermott Miller

GDP vs Financial Conditions Index



Sources: ANZ National Bank, Statistics NZ

INTEREST RATE STRATEGY

We expect good receiving interest with any spike up in the IRS yields above 8.4 percent in the 2 year. Market pricing moves to 50:50 for July after May retail sales. Swap spreads expected to narrow on the back of continued issuance.

Market themes...

- Following indifferent data prints, strong May retail sales ups the risk profile for July.
- But still strong receiving interest expected if yields move higher on the back of stronger CPI print.
- Volatility in global rates to continue flowing through into local long end.

Outlook...

The local dataflow for most of last week printed indifferent. While generally heading in the right direction, the details will not have provided sufficient comfort for the Reserve Bank. Even the weak June housing market data was affected by changes to the way it is collected, making interpretation difficult.

But all these changed when May retail sales came out much stronger than expected on Friday. This pushed yields up and saw the market pricing in a good amount of tightening over the next three months. Market pricing for July has moved from 30 percent for most of the past few weeks to close to 50 percent.

We expect strong receiving interest on any move up in the IRS curve, which will help cap the potential upside moves in yields from a strong CPI print. In the 2-year IRS, receiving interest will be particularly strong on yields above 8.4 percent. Swap spreads will continue to narrow due to continued demand through the issuance market.

Globally, volatility in the US bond market courtesy of subprime concerns will continue to dominate the local long end of the yield curve. But with the global tightening cycle still on track, with the BoJ expected to hike in the coming months, global yields are still headed up. Despite subprime concerns, US 10 year yields look to have found a bottom at 5 percent.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔/↑	Today's CPI data key for the July OCR review. Market pricing close to 50:50.
NZ data	↔/↑	Local data generally heading in the right direction but strength in May retail sales ups the risk profile.
Fed Funds/front end	↔/↑	Continual tightness in labour market and Fed confidence economy to return to trend make easings this year unlikely.
RBA	↔/↑	Next move by RBA still up, but they have time on their hands. AU CPI data still key.
US 10 year	↔/↑	Subprime concerns still in the background, but 10-year yields look firmly in the 5%-5.3% range.
NZ swap spreads	↔/↓	Issuance in the domestic market should see pressure for swap spreads to narrow.
Flow	↔/↓	Market will look to receive on yield backups.
Technicals	↔	Today's CPI data will give us a clearer technical picture.

Borrowing strategies we favour at present

Rates remained range-bound last week with domestic data dictating their direction. This week the market will continue to look to data releases and will assess risks of another OCR increase dependent on this. Dips in yields should be considered by borrowers as an opportunity to fix, 2 to 3 years. Building optionality into medium-term strategies should also be considered, to allow participation should rates fall in the medium term.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 26-Jul-07	30	48
Thu 13-Sep-07	44	68
Thu 25-Oct-07	44	76
Thu 6-Dec-07	44	76
Thu 24-Jan-08	44	76
Thu 6-Mar-08	32	72
Thu 24-Apr-08	32	72

Trading themes we favour at present

Barring a huge result in the CPI, expect good receiving interest above 8.4 percent in the 2-year IRS. A high NZD is the only sticking point for the Reserve Bank.

CURRENCY STRATEGY

Inflation data holds the key for currency markets this week. A strong read in NZ would up the ante on a rate hike from the RBNZ and could see the NZD with an 8 in front of it.

Market themes...

- Risk aversion ructions following further subprime fallout in the US.
- Yield vs growth... NZ retail sales data suggests the balancing act is not quite as delicate.

Outlook...

A combination of poor sentiment towards the USD and ongoing yield related demand for the NZD has seen the kiwi easily hold ground above support at 0.7840.

Risk appetites were tested through the week, with the state of the US housing market and subprime mortgage issues bursting back into the spotlight, albeit only briefly. Ratings agency Standard and Poors said it might downgrade US\$12b of bonds backed by subprime mortgages, and the 2nd largest home builder in the US forecasting a loss and saying that they saw no sign of a housing rebound.

Volatility increased, credit spreads widened and risk aversion rose, highlighting the risk of further unwinding of the carry trade. Both the NZD and USD moved lower to support levels but the NZD has since managed to attract buyers, illustrating the attractiveness of its yield advantage.

Stronger than expected NZ retail spending data raised some question marks about how comfortable the Reserve Bank will be waiting for signs that the NZ consumer has put away their credit cards, and reinforced the bias towards higher interest rates.

CPI data in both the US and NZ holds the key this week. Today's June quarter CPI data will be a crucial release, with any signs that domestic inflation pressure has continued unabated likely to see the market pricing in more chance of a rate hike at the end of the month, which in the current environment would further underpin the NZD.

The USD continues to teeter near 2007 lows around 81.3. The key for the USD remains the outlook for the Fed and whether the recovery in economic activity will continue. Fed speakers over the past week have reinforced the message that the economy is performing well, and that housing market concerns are unlikely to spill over into the wider economy. As such, the bias for US interest rates remains no-change for 2007, and the market will be looking for US CPI data to reinforce this.

Technically, 0.7720 held for last week with ease. The consolidation at these lofty levels has resulted

in a range trade between 0.7800/0.7880 to occur. Any break above the previous high at 0.7881 should be treated as significant and will lead to 0.7950 target. Below 0.7800 again calls for a deeper retracement to 0.7680. NZD/AUD topped out beautifully at the 200 hour moving average at 0.9090 (1.1000). Treat this level as a top for a move towards fibonacchi support at 0.8980. A break here will target 0.8875 support.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↑	RBA on hold??. Advantage NZ – 8.00 v 6.25.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Aussie ahead of us in the terms of trade cycle.
Technicals	↓	Been range bound all year, little reason to break out.
Sentiment	↔	CPI today is important AUD/USD looks very strong
Other	↔	Yield still attractive for both Uridashi and eurokiwi. But maturity profile steepening.
On balance	↔/↓	Consolidation with negative bias.

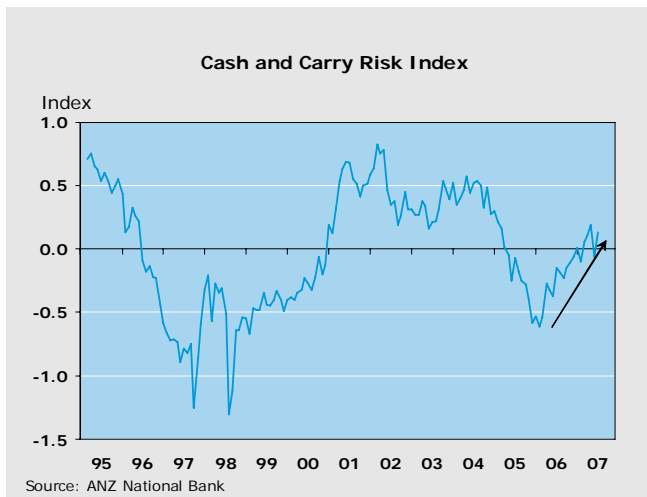
NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↓	Some sectors booming, but most struggling.
Yield	↑	8% clearly a buy trigger.
Commodities	↔	Higher commodity prices remain supportive but NZD over-priced on dairy alone.
Risk aversion	↔	Requires a stronger JPY from risk aversion to effect NZD now.
Partial indicators	↓	Kiwi overvalued either way you look at it.
Technicals	↔	Move looks mature, but weakness yet to be cited. Trade 0.7800 or 0.7880 break
AUD	↑	Super strong all last week
Sentiment	↔	RBNZ change in reserve management has had an effect
Other	↑	Yen the key now as market on bender.
On balance	↔	0.7800-0.7880 range but CPI to dominate

CURRENCY GAUGES

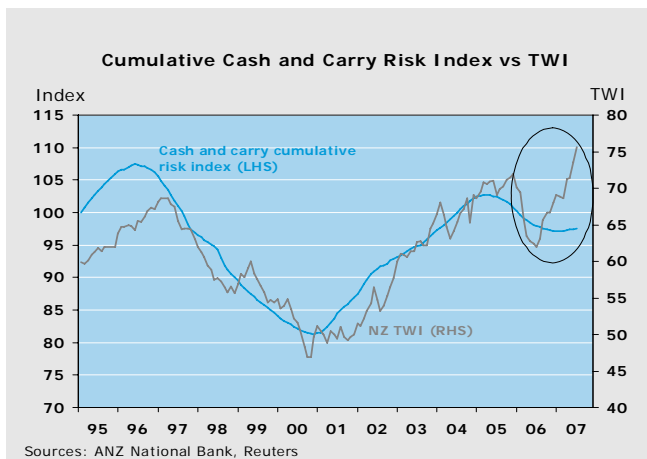
Our cash and carry index and the currency macro-momentum gauge highlight how extended the NZD is when looking at the level, although the directional bias on both is neutral. Given the neutral readings, the bias looks to be the trend remaining the market's friend.

Regular readers of *Market Focus* will be aware of our cash and carry risk index and macro-momentum gauge. The former is a proxy for the attractiveness of "cash and carry trades", while the latter captures the importance of macro momentum indicators as a determinant of the trends in the NZD. In light of the recent movements in the NZD, we thought it timely to provide an update on these two gauges. Key points from our updated **cash and carry index** include:

- **It is back in positive territory**, and has been trending up now for over 12 months. The index is giving a (broadly) neutral reading on the direction for the NZD.

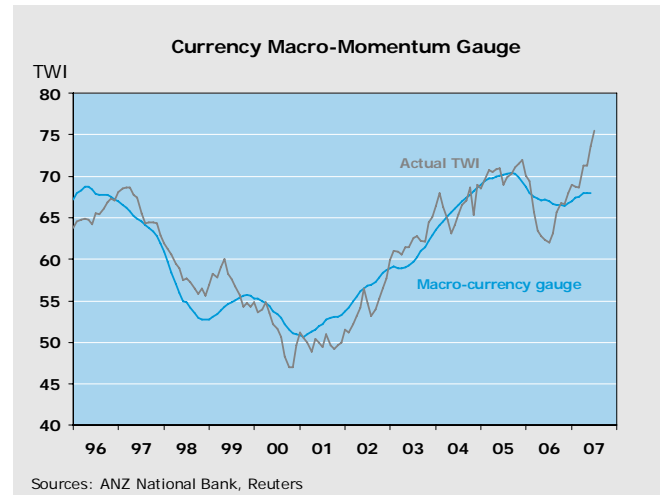


- **Expressed cumulatively, the index still suggests the NZD is well extended**, although lacking a clear trigger to foster the turn.



- **When we look at the components to our index**, the currency valuation aspect is neutral (owing to high commodity prices). Risk appetites remain strong (despite ructions in US markets relating to subprime lending over the past week). The interest rate leg is positive. The domestic risk leg remains strongly negative, and looks the pending achilles heel.

Key points from our updated **macro-momentum gauge** include:



- **The indicator has flattened out over May and June this year.**
- **The recent appreciation in the NZD has widened the gap between the level of our gauge and the NZD.** This fundamental mismatch is approaching magnitudes that historically have resulted in the currency "snapping back".

Market attention will now turn to gauges for June and July, and specifically how the impact of the three interest rate hikes, and record high NZD are impacting on economic prospects. Ultimately it is growth and macro-momentum that holds the key to trends in the NZD.

The upshot

Both our cash and carry risk index and macro momentum gauge are giving broadly neutral readings for the NZD, although the rubber band is taut when looking at the absolute level.

Given the neutral readings, the bias looks to be for the trend to remain the market's friend until participants see a strong reason to sell.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
16 Jul	NZ	Consumer Price Index (2Q) – qoq	0.8%	0.5%	10:45
		Consumer Price Index (2Q) – yoy	1.8%	2.5%	10:45
		Food Prices (Jun) – mom	-	0.3%	10:45
		Non Resident Bond Holdings (Jun)	-	68.5%	15:00
	GE	Consumer Price Index (Jun F) – mom	0.1%	0.1%	18:00
		CPI – EU Harmonised (Jun F) – mom	0.1%	0.1%	18:00
	EU	Euro-Zone CPI (Jun) – mom	0.1%	0.2%	21:00
		Euro-Zone CPI – Core (Jun) – yoy	1.9%	1.9%	21:00
17 Jul	US	Empire Manufacturing (Jul)	18.0	25.8	00:30
	JN	Tertiary Industry Index (Jul) – mom	0.2%	1.7%	11:50
	AU	Preliminary BoP Imports (Jun) – mom	-	3.0%	13:30
	UK	CPI (Jun) – mom	0.1%	0.3%	20:30
		Core CPI (Jun) – yoy	1.9%	1.9%	20:30
		RPI (Jun) – mom	0.3%	0.4%	20:30
		RPI Ex Mortgage Interest Payments (Jun) – yoy	3.2%	3.3%	20:30
	GE	ZEW Survey (Economic Sentiment) (Jul)	19.5	20.3	21:00
		ZEW Survey (Current Situation) (Jul)	88.0	88.7	21:00
	EU	ZEW Survey (Economic Sentiment) (Jul)	19.5	19.0	21:00
18 Jul	US	Producer Price Index (Jun) – mom	0.1%	0.9%	00:30
		PPI Ex Food & Energy (Jun) – mom	0.2%	0.2%	00:30
		Net Long-Term TIC Flows (May)	\$70.0B	\$84.1B	01:00
		Total Net TIC Flows (May)	\$90.0B	\$111.8B	01:00
		Industrial Production (Jun)	0.5%	0.0%	01:15
		Capacity Utilisation (Jun)	81.6%	81.3%	01:15
		IBD/TIPP Economic Optimism (Jul)	-	49.1	02:00
		Fed's Hoenig Speaks on US Economy in Nebraska	-	-	05:00
		NAHB Housing Market Index (Jul)	27	28	05:00
	AU	Westpac Leading Index (May) – mom	-	0.7%	12:30
		RBA Governor Stevens Speaks on Asian Crisis	-	-	-
	JN	Leading Economic Index (May F)	36.4%	30.0%	17:00
		Coincident Index (May F)	60.0%	66.7%	17:00
		Machine Tool Orders (Jun F) – yoy	-	2.8%	18:00
	UK	Bank of England Minutes	-	-	20:30
		Claimant Count Rate (Jun)	2.7%	2.7%	20:30
		Jobless Claims Change (Jun)	-7.5k	-9.3k	20:30
		Average Earnings inc Bonus (May) – 3mth/yoy	3.6%	4.0%	20:30
		ILO Unemployment Rate (May) – 3mths	5.5%	5.5%	20:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
18 Jul cont.	UK	Manufacturing Unit Wage Cost (May) – 3mth/yoy	-	0.2%	20:30
	EU	Euro-Zone Trade Balance (May) – s.a.	4.1B	3.5B	21:00
		Construction Output (May) – mom	-	-0.9%	21:00
19 Jul	US	Consumer Price Index (Jun) – mom	0.1%	0.7%	00:30
		CPI Ex Food & Energy (Jun) – mom	0.2%	0.1%	00:30
		Housing Starts (Jun)	1,450k	1,474k	00:30
		Building Permits (Jun)	1,480k	1,520k	00:30
		Fed's Bernanke Report on Economy and Fed Policy	-	-	02:00
		Bernanke Testifies Before House Panel on Monetary Policy	-	-	02:00
	JN	All Industry Activity Index (May) – mom	-	1.2%	11:50
		Nationwide Department Store Sales (Jun) – yoy	-	-0.4%	17:30
	AU	RBA Foreign Exchange Transactions (Jun)	-	\$480m	13:30
	GE	Producer Prices (Jun) – mom	0.3%	0.3%	18:00
	UK	Retail Sales (Jun) – mom	0.3%	0.4%	20:30
		Public Finances (PSNCR) (Jun)	12.1B	6.2B	20:30
		Public Sector Net Borrowing (Jun)	6.2B	8.2B	20:30
		M4 Money Supply (Jun P) – mom	1.1%	1.2%	20:30
		BSA Mortgage Approvals (Jun)	-	£4,262m	20:30
20 Jul	US	Fed's Bernanke Testifies Before Senate Panel on Monetary Policy	-	-	01:30
		Leading Indicators (Jun)	-0.1%	0.3%	02:00
		Philadelphia Fed (Jul)	14.0	18.0	04:00
		Fed's Moskow Speaks to Economists in Philadelphia	-	-	04:30
		Minutes of June 28 FOMC Meeting	-	-	06:00
	NZ	Visitor Arrivals (Jun) – mom	-	1.8%	10:45
		Credit Card Spending (Jun) – yoy	-	5.8%	15:00
	AU	Import Price Index (2Q) – qoq	-	-1.7%	13:30
		Export Price Index (2Q) – qoq	-	0.0%	13:30
		New Motor Vehicle Sales (Jun) – mom	-	-0.5%	13:30
	UK	GDP (2Q A) – qoq	0.7%	0.7%	20:30
		Index of Services (May) – 3mth/3mth	1.0%	1.0%	20:30
	EU	ECB's Trichet, Liikanen Speak at a Seminar	-	-	21:00
21 Jul	US	Fed's Poole Speaks on Subprime Mortgages in St Louis	-	-	03:00

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

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

NEW ZEALAND DATA WATCH

Key focus over next four weeks: Evidence to suggest the economy is turning remains mixed. The Reserve Bank need to see evidence of a sustained moderation and that will be their focus over the next four weeks. Prior to that however, is the June quarter CPI release. An ugly non-tradable print and we would be inclined to call a further hike at the *OCR Review*.

Date	Data/Event	Economic Signal	Comment
Mon 16 Jul (10.45)	Consumer Price Index (Jun qtr)	Watch non-tradable inflation	We expect the annual headline CPI to ease to 1.8 percent in the June quarter. However, it is the non-tradable inflation print that is most important. We expect this to remain elevated and over 4 percent in annual terms.
Fri 20 Jul (10.45)	External Migration (June)	Easing	PLT departures have trended upwards. Are overseas destinations becoming more attractive places to live?
Fri 20 Jul (15.00)	Credit Card Billings (June)	Easing	Further fallout from higher mortgage rates is expected.
Thu 26 Jul (09.00)	RBNZ <i>OCR Review</i>	On hold	The Q2 CPI release is the key now the key for the Reserve Bank. If non-tradable inflation prints ugly (and in the vicinity of the 1.2 percent increase recorded in Q1) we would be inclined to call a hike. The Bank cannot let inflationary pressures become more entrenched than they already are.
Fri 27 Jul (10.45)	Overseas Merchandise Trade (June)	Deficit	Expecting a deficit as imports are pulled higher by the arrival of the HMNZS Canterbury.
Mon 30 Jul (10.45)	Building Consents (June)	Up	Builders would have rushed to get consents in prior to the fee increases in July. This impact was felt in May and will also be seen in June.
Mon 30 Jul (15.00)	Credit Growth	Still strong	Monthly increases around 1 percent have been the norm over the past 24 months; we expect this to continue.
Tue 31 Jul (15.00)	National Bank <i>Business Outlook</i> (July)	-	-
Mon 6 Aug (10.45)	QES and LCI Surveys (Jun qtr)	Elevated	Business surveys indicator that firms are increasingly finding it difficult to find both skilled and unskilled staff. This suggests wage pressures will remain elevated for some time.
Tue 7 Aug (15.00)	ANZ Commodity Price Index (Jul)	-	-
Thu 9 Aug (10.45)	Household Labour Force Survey (Jun qtr)	Softer	Employment is likely to have only grown by a small amount in the quarter after a strong increase in March. The unemployment and participation rates are expected to remain largely unchanged.
On Balance		Slowing	Bias looks to have turned. Focus now on whether it will be sustained.

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SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	May 07	Jun 07	16 Jul 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
NZD/USD	0.733	0.756	0.787	0.730	0.690	0.670	0.650	0.630	0.620	0.600
NZD/AUD	0.888	0.898	0.904	0.890	0.831	0.798	0.783	0.778	0.775	0.769
NZD/EUR	0.542	0.563	0.571	0.529	0.507	0.504	0.500	0.496	0.496	0.488
NZD/JPY	88.5	92.6	96.0	90.5	86.9	85.1	81.9	78.1	75.6	72.0
NZD/GBP	0.369	0.380	0.387	0.371	0.354	0.347	0.340	0.333	0.333	0.326
NZ\$ TWI	71.4	73.7	75.4	71.2	67.6	66.0	64.5	63.1	62.4	60.7
NZ interest rates	May 07	Jun 07	16 Jul 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
OCR	7.85	8.07	8.00	8.00	8.00	8.00	8.00	8.00	7.50	6.75
90 day bill	8.09	8.32	8.42	8.20	8.10	8.10	8.10	8.10	7.50	6.80
10 year bond	6.18	6.73	6.85	6.60	6.60	6.60	6.70	6.80	6.80	6.80
International	May 07	Jun 07	16 Jul 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
US Fed funds	5.25	5.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	5.75
US 3-mth	5.36	5.36	5.36	5.35	5.35	5.35	5.35	5.40	5.50	6.00
AU cash	6.25	6.25	6.25	6.25	6.25	6.50	6.75	6.75	6.75	6.75
AU 3-mth	6.36	6.44	6.45	6.40	6.40	6.70	6.90	6.90	6.90	6.90

KEY RATES

	13 June	9 July	10 July	11 July	12 July	13 July
Official Cash Rate	8.00	8.00	8.00	8.00	8.00	8.00
30 day bank bill	8.21	8.24	8.24	8.24	8.24	8.30
90 day bank bill	8.34	8.37	8.36	8.35	8.35	8.41
NZGB 07/09	7.36	7.40	7.49	7.48	7.51	7.61
NZGB 11/11	7.23	7.18	7.20	7.18	7.20	7.28
NZGB 04/13	7.12	7.08	7.10	7.07	7.09	7.16
NZGB 12/17	6.86	6.76	6.78	6.74	6.76	6.82
1 year swap	8.48	8.47	8.46	8.43	8.45	8.51
2 year swap	8.44	8.39	8.37	8.33	8.35	8.40
5 year swap	8.16	8.10	8.07	8.02	8.03	8.06
RBNZ TWI	73.2	75.5	74.9	74.6	75.1	75.2
NZD/USD	0.7500	0.7806	0.7758	0.7762	0.7812	0.7831
NZD/AUD	0.8913	0.9094	0.9032	0.9023	0.9062	0.9032
NZD/JPY	91.72	96.54	95.63	94.48	95.59	95.91
NZD/GBP	0.3801	0.3882	0.3849	0.3831	0.3846	0.3860
NZD/EUR	0.5636	0.5730	0.5698	0.5647	0.5679	0.5682
AUD/USD	0.8415	0.8584	0.8589	0.8602	0.8621	0.8670
EUR/USD	1.3307	1.3622	1.3616	1.3745	1.3755	1.3781
USD/JPY	122.29	123.67	123.27	121.72	122.36	122.47
GBP/USD	1.9733	2.0110	2.0156	2.0260	2.0313	2.0289
Oil	65.36	72.14	72.14	72.80	72.58	72.55
Gold	647.25	659.30	659.35	664.60	662.30	666.15
Electricity Price Index	6.60	6.76	7.16	7.22	7.37	7.44

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