

## SEEKING A BALANCE

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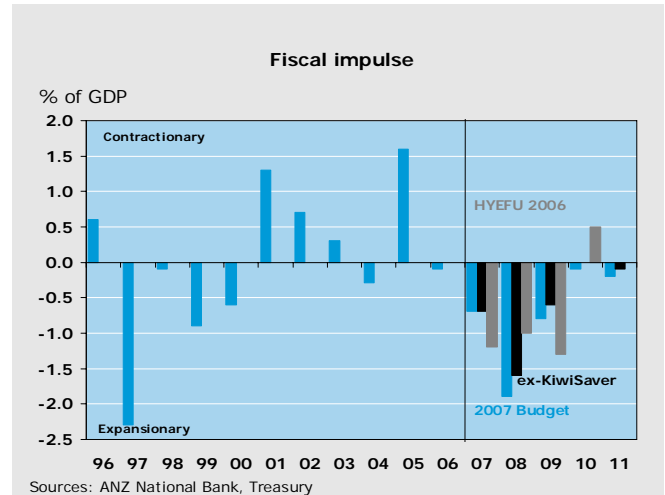
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## ECONOMIC OVERVIEW

Last week's *Budget* has largely been viewed as having minimal impact on the Reserve Bank. While the strong focus on savings is a welcome development, the overall fiscal stance is more expansionary than what was signalled six months ago, a fact that will not have gone unnoticed at the Reserve Bank.

### What's ahead...

- NZ April Credit Card Billings (Monday 1500 NZST) to show some pull-back.
- NZ RBNZ Survey of Expectations (Wed 1300 NZST) to show a rise in inflation expectations.
- NZ April Merchandise Trade (Thursday 1045 NZST) to record a small monthly trade surplus.

### What's the view

Most commentators have described last week's *Budget* as having limited bearing on the Reserve Bank. Both the currency and rates markets seem to agree, with hardly any financial market reaction. Dr Cullen appears to have once again struck a good balance between running prudent fiscal policy and not fanning an excessive domestic economy. However, a closer look at the numbers reveals a more expansionary fiscal stance compared to the *Half-year Update (HYEFU)* six months ago, and hence additional pressure on resources.

Certainly, a simplistic reading of the *Budget* suggests that Dr Cullen has stuck to the allocation he flagged in the *HYEFU* and merely transferred the additional upside tax revenue surprise from the Government's operating balance straight into household savings via the KiwiSaver enhancements. Since households cannot access the KiwiSaver enhancements (worth up to \$1.2 billion by 2010/11) until they reach the age of retirement, there will be no additional stimulus to domestic demand from KiwiSaver.

However, the biggest warning sign that the *Budget* will add to the Reserve Bank's concerns is the Treasury's estimate of the fiscal impulse. For 2007/08, the Treasury estimates that fiscal policy will be more stimulatory than we thought six months ago (even if we exclude the cost of the KiwiSaver enhancements). But the more worrying aspect is that the fiscal impulse for 2006/07 turned out to be less expansionary than first thought. This is mainly due to delays in operating and capital spending, and stronger tax revenue. The fact that the economy finds itself under increasing resource pressure at a time when fiscal policy proved to be only modestly expansionary, suggests that capacity constraints are possibly worse than initially thought. If inflation pressure has worsened when the fiscal impulse is 0.7 percent of GDP, what will a fiscal impulse of 1.6 to 1.9 percent of GDP do?

A complication for the Reserve Bank is that the compositional aspects of the fiscal impulse are

more favourable than the headline impulse measure suggests. For example, the impact of the KiwiSaver enhancements depends a lot on how workers respond. Some of the additional spending such as ODA will head offshore. As the Reserve Bank noted in a recent research paper, "*it seems likely that the fiscal impulse created by savings incentives will have a significantly less stimulatory effect, and could be mildly contractionary.*" But even allowing for such compositional aspects, the net change to the stance is still more inflationary.

The Reserve Bank will also need to weigh up the real possibility of further fiscal stimulus in next year's *Budget*. A forward looking central bank, particularly one that is concerned about inflation rising towards the top half of the target band by the end of 2008, needs to factor in a high probability that fiscal policy will be more expansionary next year. The bulk of the \$3 billion earmarked for additional spending in the 2008 *Budget* has already been pre-committed, with the Business Tax Reforms taking up \$1.1 billion and health pre-committed with another \$0.8 billion. With education and the usual line-up of initiatives taking up a good chunk of the balance, it does not leave much for election winning policies (i.e. tax cuts).

On balance, given the Reserve Bank's repeated concern towards fiscal policy, the *Budget* on the whole will continue to lean against the Reserve Bank's efforts to slow domestic demand. Last week's data also showed strong momentum in retailing, and continued strong gains in house prices. In such an environment, the bias will be to do more than is necessary on the interest rate front. A June hike remains a key risk in our view, despite financial conditions having already tightened considerably.

Of course, monetary policy considerations should never stand in the way of good policy. We were encouraged by the strong focus on savings, and view Kiwisaver-based incentives as a welcome move. Bouquets to Dr Cullen (although we note that roughly half of the Government's contribution to Kiwisaver - \$600 million - is being financed by the removal of the income tax threshold indexation!) The Government committed an additional \$0.6 billion to capital spending. But if there is one thing missing from the *Budget* it was initiatives to improve productivity growth. There was certainly a lot of talk, but we struggled to find anything of substance.

### Recent data...

- **NZ Retail Sales (Mar).** Total sales rose by 1.3 percent, while core sales rose 0.8 percent.
- **NZ Producers Price Index (Q1).** Both input and output prices fell (1.6 and 0.2 percent).
- **NZ REINZ Housing report (Apr).** House sales fell but house prices accelerated.
- **NZ 2007 Budget.** Fiscal position strong. More spending, but a stronger focus on savings.
- **NZ External Migration (Apr).** Annual net migration eased to 11,222.

## LOOKING FOR SOME BALANCE

**Our simple demand-supply housing balance measures across the regions highlight Auckland and Wellington as areas where the market remains tightest. Conversely, a turning point is not too far away in the majority of regions, notably Gisborne, Hawke's Bay and Taranaki.**

Last week's REINZ housing market report showed continued strong gains in house prices across the nation. Demand remains strong, and a lack of supply was also noted as fuelling gains. The Reserve Bank is looking for a turn in the cycle. Interest rate hikes are designed to slow demand. But housing market activity is also influenced by supply, and it is the net of supply and demand that determines prospects. We monitor two simple gauges to highlight supply-demand balance within the property market, and across the regions.

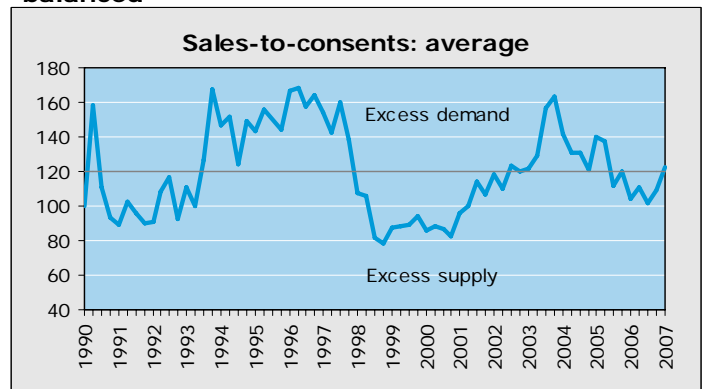
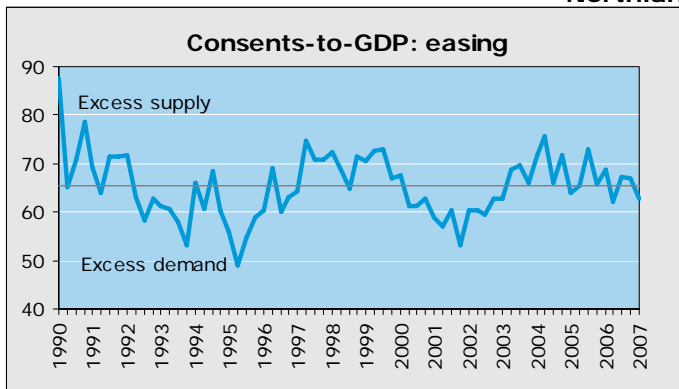
- **The ratio of consents (supply) to economic growth within a region.** If consents are growing faster than demand growth within the region, it is indicative of excess supply, and of course the converse applies.
- **The ratio of house sales to consents.** Another supply-demand balance measure, with an up-tick in the ratio indicating excess demand, and a fall below trend suggesting a supply glut pending.

Across the regions, we note the following:

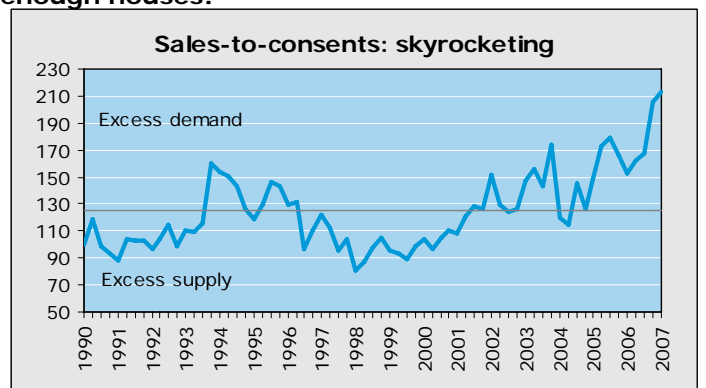
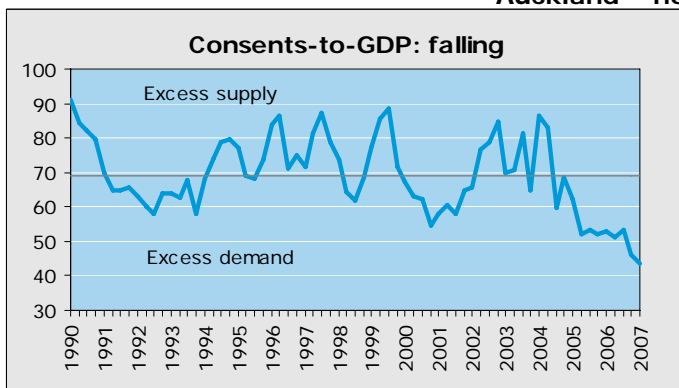
- Auckland and Wellington are the national hot-spots showing clear excess demand relative to supply. In both regions, the ratio of consents to GDP has fallen below trend (too little supply), while the ratio of sales to consents has been trending up (solid demand).
- Our supply-demand indicators are broadly in balance when looking at Northland, Waikato and Canterbury.
- The majority of regions are now showing early signs of a market that is set to move in the favour of buyers. The ratio of consents to GDP has been trending up in Gisborne, Taranaki, Hawke's Bay and Manawatu. In these same regions, the ratio of house sales to consents has fallen below the historical average.

Collectively, the results reinforce the positive impact that Government spending and limited housing supply is having on the Auckland and Wellington region. Conversely, half the regions – and most are rural aligned – show signs of pending excess supply relative to demand. These include Gisborne, Taranaki, Hawke's Bay, Manawatu, Otago and Southland. Such areas have been key housing hot spots for the past three years. But with measures of supply-demand balance deteriorating, watch for these regions to be the first to show signs of moderation.

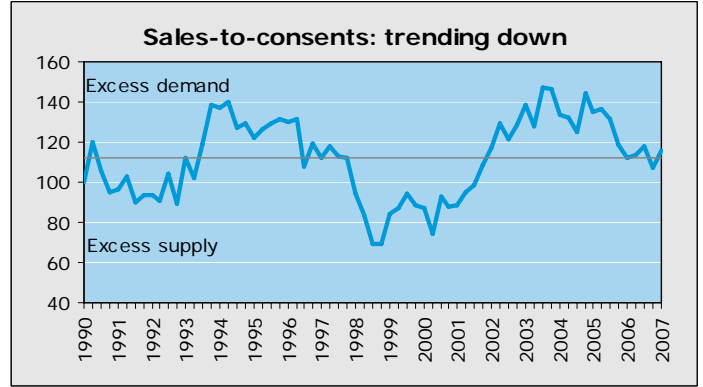
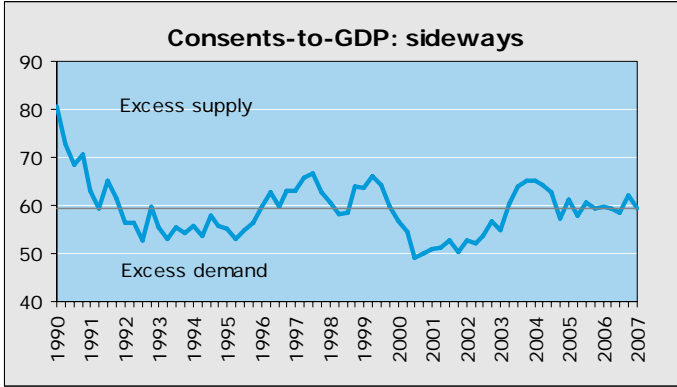
**Northland - balanced**



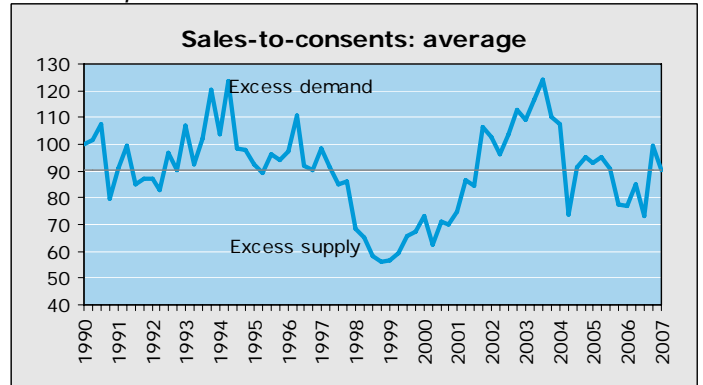
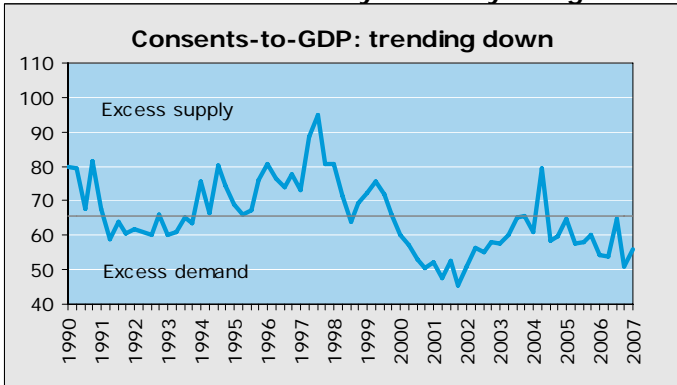
**Auckland – not enough houses!**



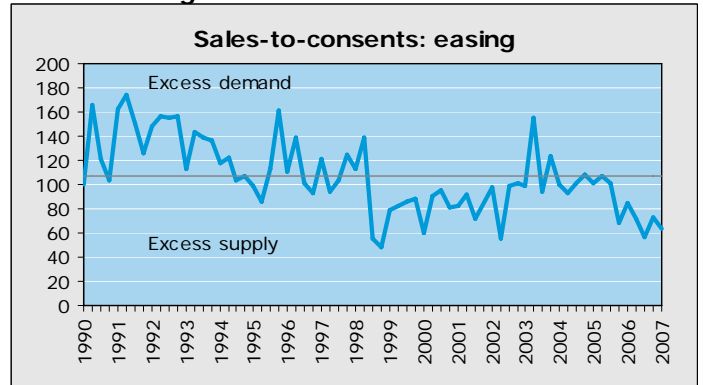
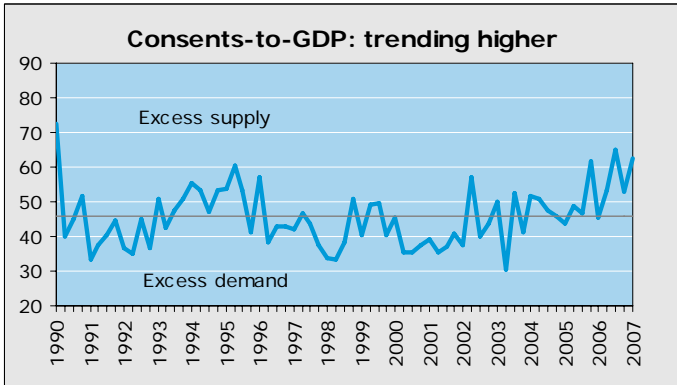
**Waikato – balanced**



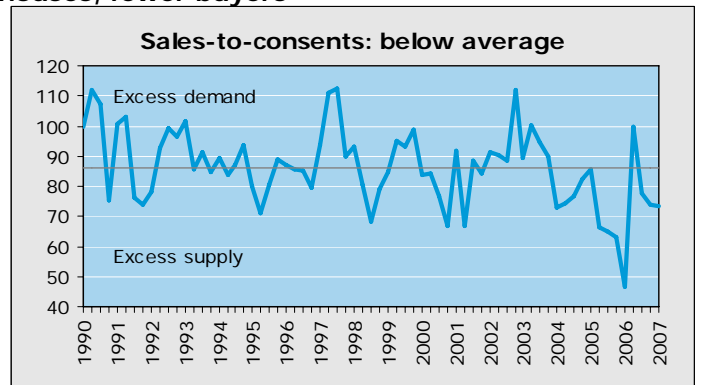
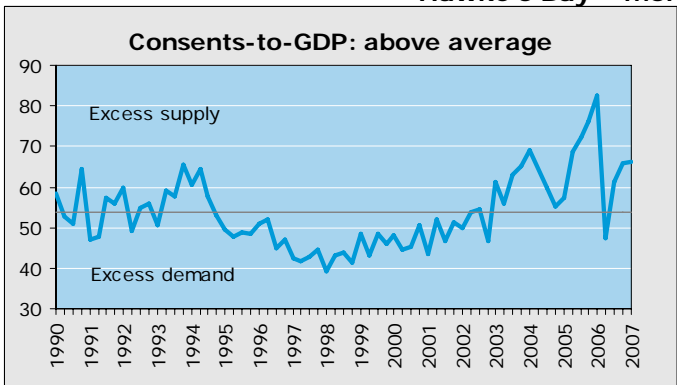
**Bay of Plenty – slight excess demand, or too few houses**



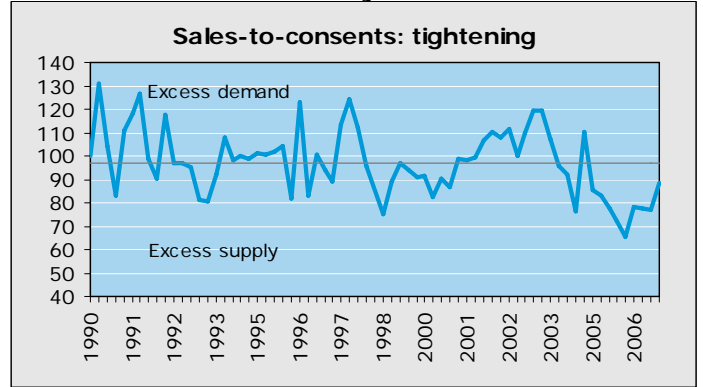
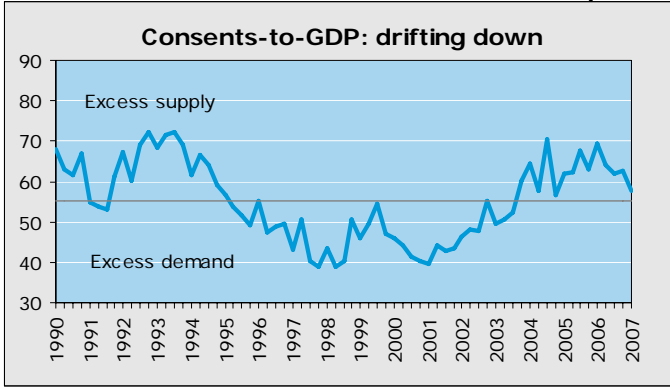
**Gisborne – lots of houses and waning demand**



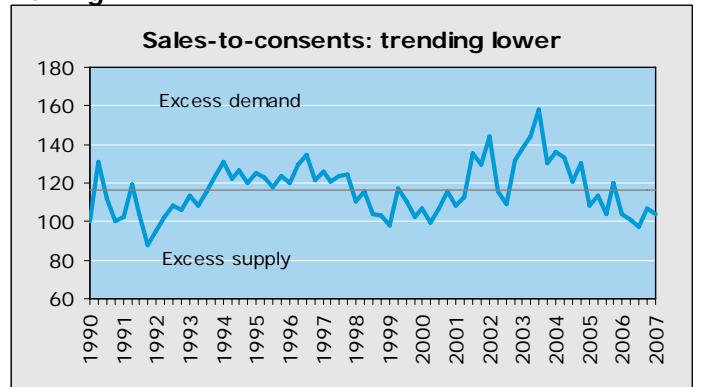
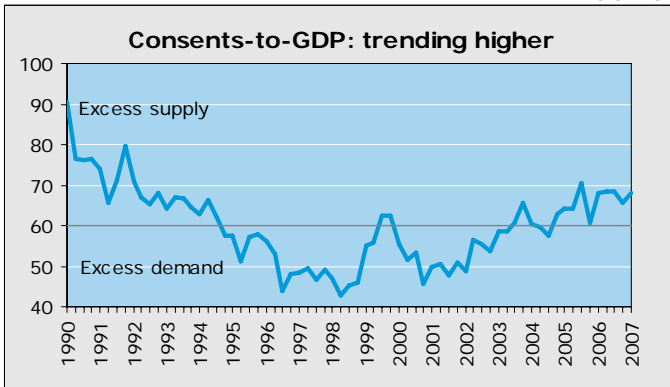
**Hawke's Bay – more houses, fewer buyers**



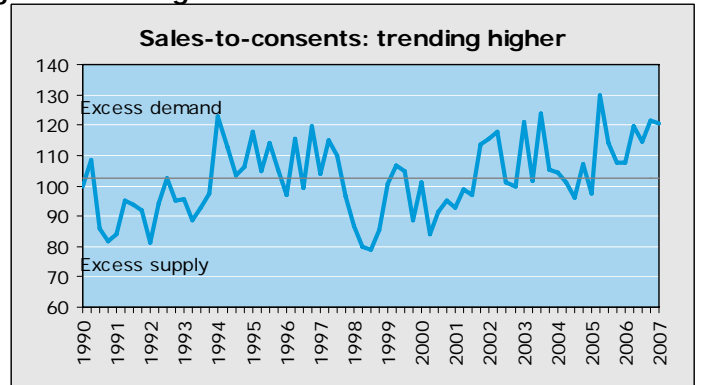
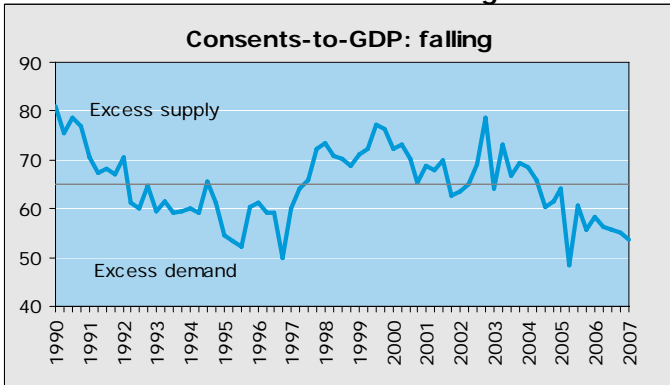
**Taranaki – a three-peat with Gisborne and Hawke’s Bay**



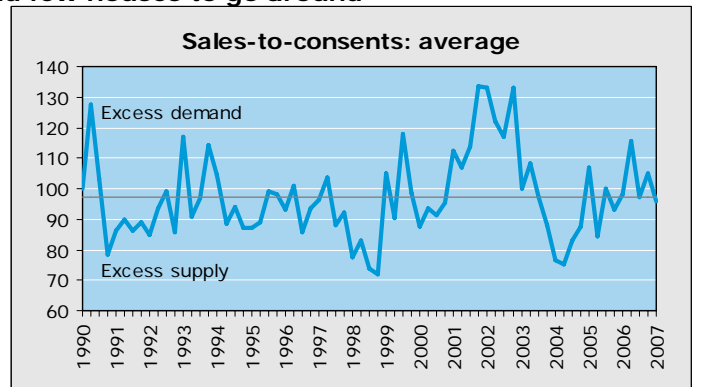
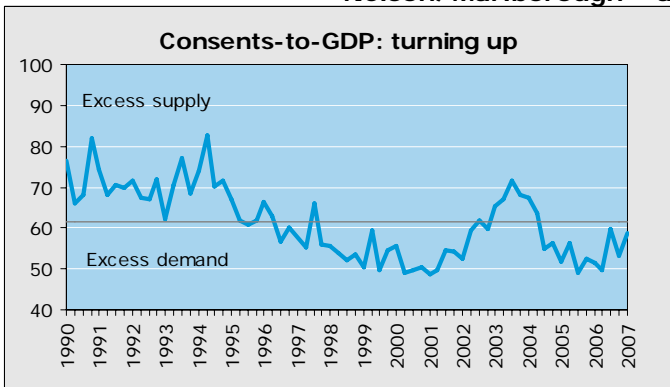
**Manawatu/Wanganui – clear pattern across the middle of the North Island. Supply pending, and demand waning.**



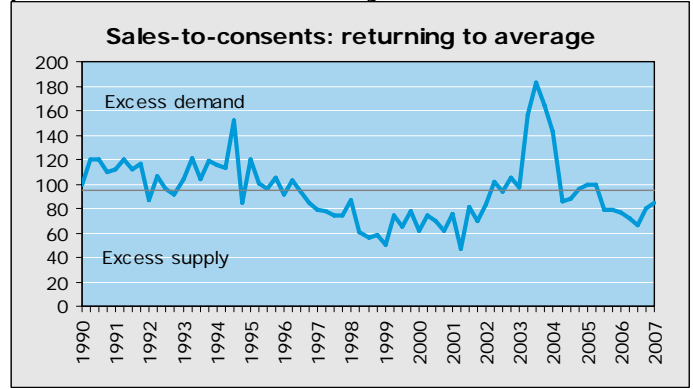
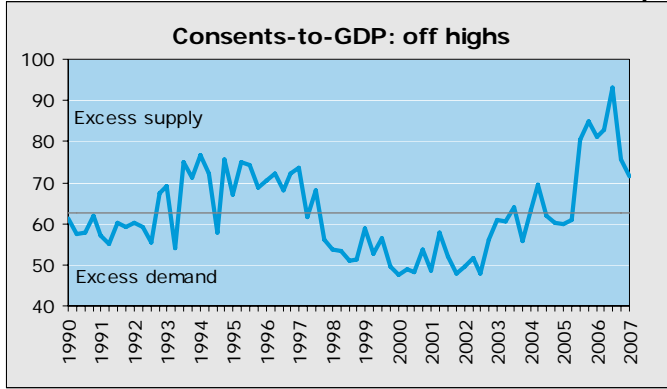
**Wellington – not enough houses to go around**



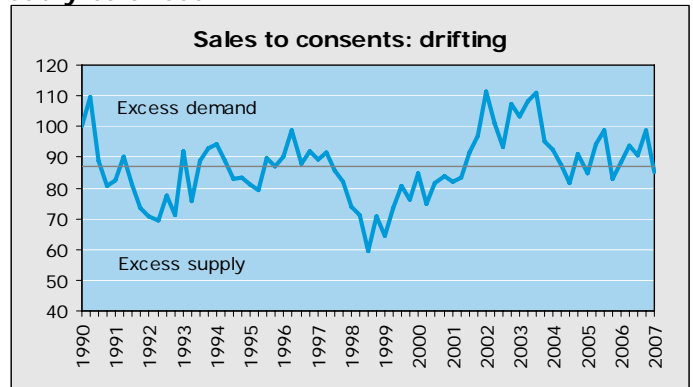
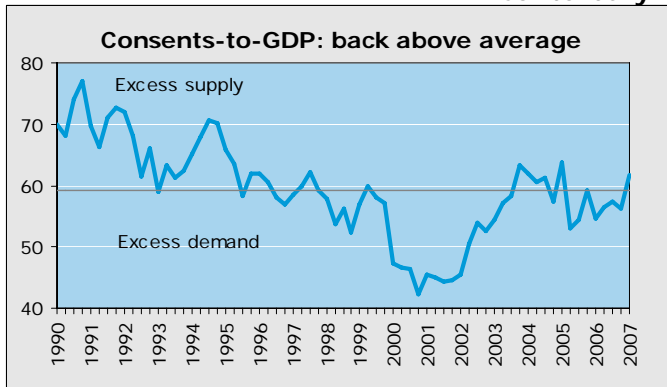
**Nelson/Marlborough – a tad few houses to go around**



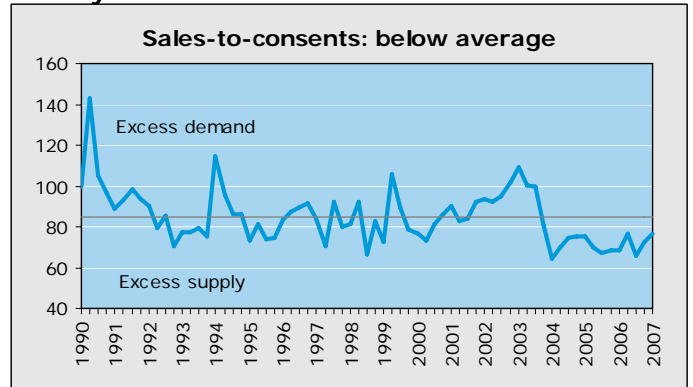
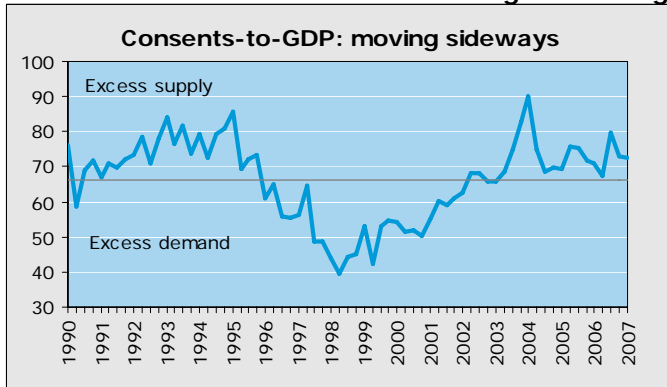
**West Coast – a lot of houses set to pop up on the coast. Are the buyers around?**



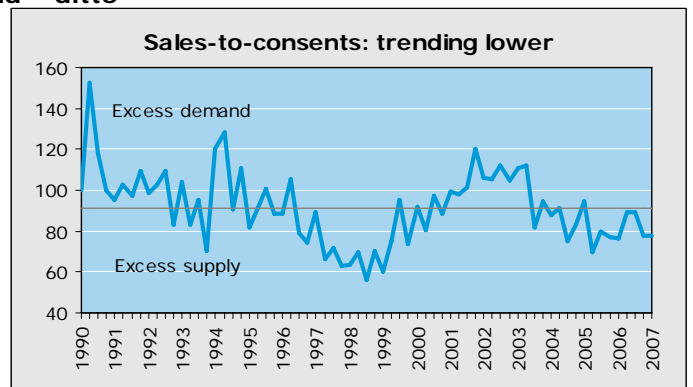
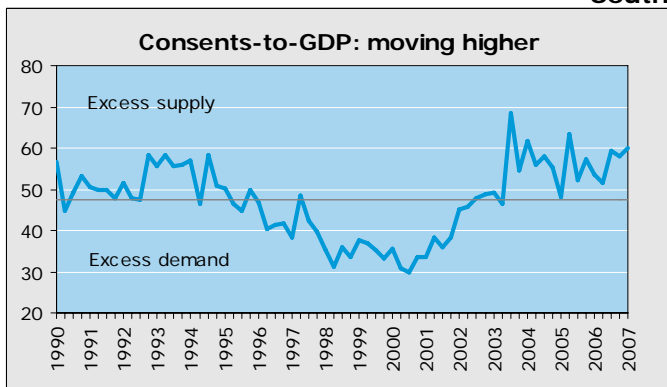
**Canterbury – broadly balanced**



**Otago – moving in the buyer's favour**



**Southland – ditto**



## INTEREST RATE STRATEGY

**The rates market continues to underprice the risk of a June hike in our view. We continue to favour being short the 1-2 year versus receiving the belly of the swaps curve.**

### Market themes...

- Dataflow still printing on the strong side and *Budget* to add more pressure on RBNZ.
- Receiving interest still strong further out the curve with shorter swaps better bid on mortgage flow.
- Relatively quiet week offshore, which means RBNZ expectations survey the main event this week.

### Outlook...

The market has only priced in a 24 percent chance of a June rate hike, with a 50 percent chance of a move by September. We believe the market continues to underprice the risk of a June hike. The RBNZ's silence on future policy moves in its April OCR *Review* and its known concerns about the level of the NZD should not be taken as signs that the RBNZ will be reluctant to hike again. The lack of headroom facing the RBNZ means if they have to act, it will be sooner rather than later, or risk momentum in the economy getting away from them again.

The focus of this week will be the RBNZ's inflation expectations survey. We expect a rise in the 2-year ahead inflation expectations reading, which may finally see the market come around to the fact that the RBNZ is in play for June. This should see market pricing head closer towards 40:60.

The lack of any major offshore data means there will be limited directional moves from global yields. This points to consolidation and tight ranges for the local rates market for the early part of the week, with the RBNZ expectations survey setting the tone ahead of the National Bank *Business Outlook* survey due at the end of next week.

There is an underlying bias to receive in the IRS market, and we expect this to still be the case this week, which will limit any pullbacks in the curve. The bond curve is expected to continue to normalise. This Thursday sees \$150 million worth of NZGB bond tender of December 17's. With long dated EFPs close to 110bps and 17's close to 6.25 percent, we expect the bond tender to be used to switch back into NZGBs.

### Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔/↑	The RBNZ is silent on its next move, but the risk profile is pointed firmly up.
NZ data	↔/↑	Credit card and RBNZ expectations survey to continue recent run of strong data.
Fed Funds/front end	↔	Fed continues to worry about inflation risks. Rate cuts not on the agenda.
RBA	↔/↑	Risk profile is for higher rates from the RBA, and sooner rather than later.
US 10 year	↔/↑	Strong US equity market and resilient consumer confidence forcing rethink in bond market.
NZ swap spreads	↔/↑	7 & 10-yr nearing support of 110bps and over. This means NZGB bond tender should be used to unwind long dated spreads, given the outright level of the April 17's.
Flow	↔/↓	A strong bias to receive the IRS curve will limit any pullbacks.
Technicals	↔	The technical picture is a little unclear, given the underlying bias to receive the IRS curve.

### Borrowing strategies we recommend at present

The risk profile for interest rates remains to the upside. We believe the market is currently underpricing the risk of a June hike. Fixing in the 2 and 3 year part of the curve represents good insurance over the short-term and allows borrowers to participate in restructuring opportunities if we were to see a dip in yields in the medium term.

### Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 7-Jun-07	16	24
Thu 26-Jul-07	30	42
Thu 13-Sep-07	36	50
Thu 25-Oct-07	36	50
Thu 6-Dec-07	26	46
Thu 24-Jan-08	6	42
Thu 6-Mar-08	-2	34

### Trading themes we favour at present

Our trading theme remains unchanged. We continue to expect the curve to invert further, therefore still favour being short the 1-2 year vs receiving the belly of the swaps curve.

## CURRENCY STRATEGY

**Concerns about carry trades mounting, but risk appetites continue to provide support.**

### Market themes...

- *Budget* fails to provide a spark. NZD trades heavily over the week as concerns about carry trades emerge.
- Ongoing rollercoaster in USD, but risk appetites remain strong, providing support to the kiwi.

### Outlook...

While strong NZ retail spending data provided a boost to the NZD (April data, due mid-June, will be critical), the *Budget* failed to inspire currency markets as it added very little pressure on the RBNZ's 7 June OCR decision. This left the kiwi in limbo and direction was driven by offshore moves.

Nervousness surrounding carry trades has weighed on Australasian currencies over the past week, following comments from SNB head Roth, and Japanese Trade Minister Amari. At the same time, however, investor risk appetites remain strong – the vix is still at risk 'seeking' levels, and the Turkish Lira and Brazilian Real, two currencies that typically provide a barometer of risk appetites, are hitting new highs. Equity markets have hit record highs, led by Wall Street. These factors all point to healthy risk appetites, and in such a setting it is hard to see a material downwards move in the NZD. But risk appetites could easily turn, and such a turn would weigh heavily on the kiwi.

The data calendar over the week ahead is still relatively light. Domestic attention will be squarely on the Reserve Bank's survey of expectations. This provides a read on inflation expectations, which are an important component of the Reserve Bank's inflation forecasting process. Expectations are likely to have crept higher over the three months since the March quarter survey was conducted. Other data releases are confined to the second tier external trade and building consents data.

With little in the way of offshore data either (US durable goods orders on Friday morning (NZST) looks like being the main release), expect currency markets to march to the beat of their own drum over the week ahead.

Technically, the NZ dollar looks tired, and with last week's *Budget* not providing any real spark, the kiwi is likely to undergo further tests of support at 0.7285 (with 0.7236 the next key level of support in the short-term). There are lots of option strikes around 0.7200 for the end of the month, and a break of 0.7250 should see model selling of the NZD. The NZD/AUD has failed several times in the 0.8980 area. The sell-off from 0.8940 and subsequent profit taking around 0.8800 leaves

many looking at 0.89+ levels to re-establish short NZD/AUD positions. This looks like it could be a close run thing around early June, with the RBA a day ahead of RBNZ. (We note that market pricing for the RBA is for rates to be left unchanged, while the NZ market is attaching a (light) 25 percent chance of a hike to the RBNZ. Nevertheless, look for any spike above 0.89 to place importer cover.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↑	Advantage NZ – 7.75 v 6.25.
Commodities	↔	Still very supportive of both.
Partial indicators	↓	Aussie set for growth but NZ slowing.
Technicals	↓	Break below 0.89 important. Sell this level on bounce.
Sentiment	↓	Carry trade rhetoric is more negative for NZD.
Other	↔	Yield still attractive for both Uridashi and eurokiwi. But maturity profile steepening.
<b>On balance</b>	↓	<b>Aussie Budget better than NZ's.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.62-0.65 given a structural shift in commodity prices.
Fair value – short-term	↔	Growth slowing but terms of trade continue to improve.
Yield	↓	RBNZ finished? US back-end higher.
Commodities	↔	Higher commodity prices remain supportive but largely reflected already.
Risk aversion	↑	Risk appetites have returned. Dow at record. Again.
Partial indicators	↔	Asia on fire. We are part of Asia.
Technicals	↔	Range trade, buy 0.7200, sell 0.7350.
AUD	↑	Markets underestimated AUD strength.
Sentiment	↓	Bearish as yield differentials narrow.
Other	↔	Need weak data, but more confident about calling 0.75 a top.
<b>On balance</b>	↓	<b>Headwinds stronger short term.</b>

## CASH'N'CARRY RISK INDEX UPDATE

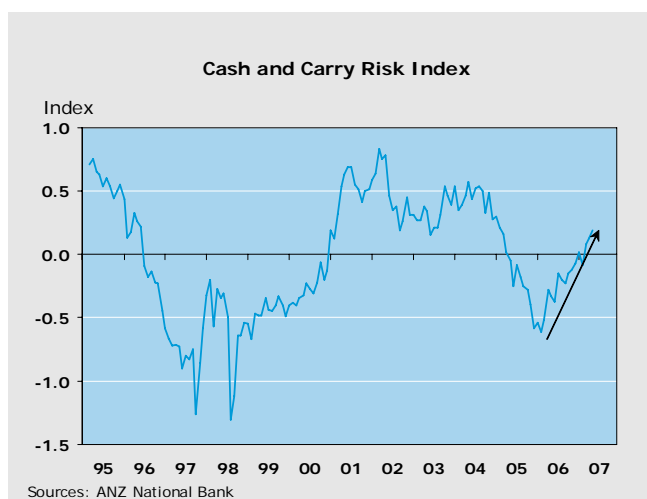
**Our cash and carry index is giving mixed messages on the NZD. The level is extended, but directionally the bias is broadly neutral. Fostering a turn requires either a weakening in risk appetites or a deterioration in domestic fundamentals.**

Carry trades, where offshore investors borrow in a low yielding country and invest in a high yielding one, have been a key source of support for the NZD. Regular readers will note that we monitor a cash and carry risk index to proxy the attractiveness of such trades. The index comprises four components.

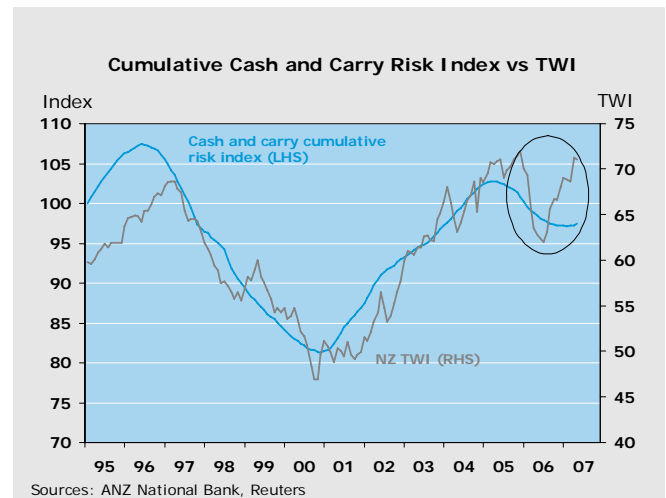
- **Currency risk**, which we proxy using the NZD adjusted for where commodity prices reside.
- **Global risk appetite**. We use the S&P VIX index and emerging market bond spreads as an indicator for the degree of risk taking.
- **Interest rate risk**, which we proxy by using the NZ-US 90-day and 2 year yield differential.
- **Domestic risk**. Our long-leading growth indicator is used as a proxy for economic risk. We also include New Zealand's current account deficit.

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 broadly given a neutral reading on the direction for the NZD.



- **Expressed cumulatively, the index still suggests the NZD is 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. The interest rate leg is positive, although not as supportive as sentiment suggests. The domestic risk leg remains strongly negative, although receding economic risk has seen the magnitude of this dissipate considerably over the past year.

### The upshot

Our cash and carry index is giving mixed messages on the NZD. The level is extended, but directionally the bias is slightly up. It is difficult to see a material turnaround in carry-related sentiment without either a weakening in risk appetites (keep an eye on global equity markets) or a deterioration in domestic fundamentals. Growth is the key domestic risk to watch.

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
21 May	UK	Rightmove House Prices (May) – mom	-	3.6%	11:01
		Public Finances (Apr)	-1.5B	17.2B	20:30
		M4 Money Supply (Apr P) – mom	0.9%	1.0%	20:30
		M4 Sterling Lending (Apr P) – mom	14.5B	12.7B	20:30
	<b>NZ</b>	<b>Credit Card Spending (Apr) - yoy</b>	-	<b>7.5%</b>	<b>15:00</b>
	EU	ECB's Papademos, Liebscher Speak in Vienna	-	-	18:45
22 May	US	Fed's Braunstein Testifies on Banking, Subprime in Cleveland	-	-	02:30
	AU	New Motor Vehicle Sales (Apr) – mom	-	1.0%	13:30
	JN	BoJ Monetary Policy Minutes for April	-	-	17:00
	GE	ZEW Survey (Economic Sentiment) (May)	23.0	16.5	21:00
		ZEW Survey (Current Situation) (May)	79.0	76.9	21:00
	EU	ZEW Survey (Economic Sentiment) (May)	15.0	10.7	21:00
		Euro-Zone Trade Balance s.a. (Mar)	0.5B	-0.2B	21:00
		Construction Output (Mar) – mom	-	0.9%	21:00
		ECB's Trichet Speaks in Seville	-	-	22:00
	23 May	US	Treasury's Paulson Starts Meeting With Chinese Officials In Washington	-	-
Richmond Fed Manufacturing Index (May)			-6	-11	02:00
Fed's Lacker Speaks on Inflation to Investors in New York			-	-	11:30
JN		All Industry Activity Index (Mar) – mom	-1.3%	0.9%	11:50
AU		Westpac Leading Index (Mar) – mom	-	0.9%	12:30
		DEWR Skilled Vacancies (May) – mom	-	-2.2%	13:00
<b>NZ</b>		<b>RBNZ's Survey of Inflation Expectations (1Q)</b>	-	-	<b>15:00</b>
EU		ECB's Liikanen Speaks in Helsinki	-	-	19:15
		ECB's Tumpel-Gugerell, EU's Alumnia Speak in Tallinn	-	-	20:30
		Industrial New Orders (Mar) – mom	1.0%		21:00
24 May	UK	Bank of England Minutes	-	-	20:30
	US	Fed Holds Open Board Meeting on Truth-in-Lending Regulations	-	-	01:30
		Treasury's Paulson Speaks After Meeting Chinese Officials in Washington	-	-	03:45
	<b>NZ</b>	<b>Trade Balance (Apr)</b>	<b>-13m</b>	<b>61m</b>	<b>10:45</b>
		<b>Imports (Apr)</b>	<b>3,290m</b>	<b>3,270m</b>	<b>10:45</b>
		<b>Exports (Apr)</b>	<b>3,200m</b>	<b>3,330B</b>	<b>10:45</b>
	JN	Merchandise Trade Balance Total (Apr)	¥953.7B	¥1,630.1B	11:50
		Adjusted Trade Balance (Apr)	¥802.0B	¥1,123.1B	11:50
	AU	Conference Board Leading Index (Mar)	-	1.4%	12:00
	GE	GDP (1Q F) – qoq	0.5%	0.5%	18:00
IFO – Business Climate (May)		108.8	108.6	20:00	
IFO – Current Assessment (May)		113.5	113.2	20:00	

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
24 May cont.	GE	IFO – Expectations (May)	104.5	104.3	20:00
	UK	Total Business Investment (1Q P) – qoq	1.9%	4.5%	20:30
		Car Production (Apr) – 3mth/3mth	-	0.0%	20:30
25 May	US	Durable Goods Orders (Apr)	0.9%	3.7%	00:30
		Durables Ex Transportation (Apr)	0.6%	1.3%	00:30
		New Home Sales (Apr)	860k	858k	02:00
		New Home Sales (Apr) – mom	0.2%	2.6%	02:00
		Fed's Mishkin Speaks on Measuring GDP at Dallas Fed Conference	-	-	12:00
	JN	National CPI (Apr) – yoy	0.0%	-0.1%	11:30
		National CPI Ex-Fresh Food (Apr) – yoy	-0.1%	-0.3%	11:30
		National CPI Ex Food, Energy (Apr) – yoy	-	-0.4%	11:30
	GE	Import Price Index (Apr) - mom	0.5%	0.6%	18:00
		GfK Consumer Confidence Survey (Jun)	6.0	5.5	18:10
	UK	GDP (1Q P) – qoq	0.7%	0.7%	20:30
26 May	US	Existing Home Sales (Apr)	6.13m	6.12m	02:00
		Existing Home Sales (Apr) – mom	0.2%	-8.4%	02:00

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

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

## NEW ZEALAND DATA WATCH

**Key focus over next four weeks:** RBNZ survey of expectations and the National Bank *Business Outlook* are key reports heading into the June *Monetary Policy Statement*. With economic activity still showing no clear signs of moderation to date, the National Bank *Business Outlook* will provide the first forward looking indicator following the RBNZ's two OCR hikes.

Date	Data/Event	Economic Signal	Comment
Mon 21 May (15.00)	Credit Card Statistics (Apr)	Pull-back	After two strong monthly increases we expect a degree of technical pull-back in April.
Wed 23 May (15.00)	RBNZ Survey of Inflation Expectations (Mar qtr)	Elevated	Given the level of inflationary pressure and the nuances we are receiving, we expect two-year inflation expectations to increase.
Thu 24 May (10.45)	Overseas Merchandise Trade (Apr)	Small deficit	We expect the monthly trade balance to record a small surplus in April. High oil prices will add to the import bill, while strong commodity prices will continue to support export values.
Wed 30 May (10.45)	Building Consents Issued (Apr)	Rebound	A technical bounce is expected after some recent weak outturns. However, the number of consents will generally remain soft.
Wed 30 May (15.00)	Credit Growth (Apr)	Still strong	Credit growth is likely to remain strong, although some impact of recent interest rates increases is likely to be seen.
Thu 31 May (15:00)	National Bank <i>Business Outlook</i> (May)	-	-
Fri 1 Jun (15.00)	National Bank <i>Rural Report</i>	-	-
Tue 5 Jun (10.45)	Wholesale Trade Survey (Q1)	Strong	This survey should record a strong increase in line with the increase in retail sales.
Thu 7 Jun (10.45)	RBNZ <i>Monetary Policy Statement</i>	On hold	The April statement did not reveal any clues about the RBNZ's future policy intentions. We believe the current tightening cycle is over but the market is nonetheless under-pricing the probability of a hike in June. The Reserve Bank needs to ensure the pending slow-down is going to be sustained as opposed to a temporary consolidation like we saw in early 2006. We suspect the bias may be to deliver one more hike to engineer this despite financial conditions already tightening considerably.
Fri 8 Jun (10.45)	Value of Building Work Put in Place (Q1)		Subdued residential investment is expected to be offset by stronger non-residential investment.
Mon 11 Jun (10.45)	Overseas Trade Indexes (Q1)	Strong terms of trade	Strong commodity prices and lower NZD oil prices see the terms of trade increase strongly in the March quarter.
Thu 14 Jun (10.45)	Retail Trade Survey (Apr)	Technical pull-back	After two extraordinary strong monthly increases, we expect a sizeable pull-back in retail spending the April.
Fri 15 Jun (10.45)	Economic Survey of Manufacturing (Q1)	Recovery	A recovery in the Business NZ PMI suggests manufacturing production increased in the quarter.
circa 15 Jun	REINZ Housing Report (May)	Supply constrained?	Possible continued easing in monthly house sales. Although a lack of supply will place further upward pressure on prices
<b>On Balance</b>		<b>A firm base</b>	<b>No slowdown in sight...yet.</b>

### NZ Economics

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## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Mar 07	Apr 07	21 May 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
NZD/USD	0.699	0.734	0.730	0.730	0.660	0.640	0.630	0.610	0.590	0.570
NZD/AUD	0.882	0.888	0.886	0.880	0.815	0.790	0.788	0.772	0.776	0.770
NZD/EUR	0.528	0.544	0.540	0.541	0.489	0.478	0.477	0.469	0.465	0.456
NZD/JPY	82.0	87.3	88.4	85.4	75.9	71.7	69.3	65.9	63.7	62.7
NZD/GBP	0.359	0.369	0.370	0.371	0.337	0.330	0.328	0.321	0.314	0.306
NZ\$ TWI	68.7	71.3	71.2	70.7	64.0	62.0	61.2	59.5	58.4	57.1
NZ interest rates	Mar 07	Apr 07	21 May 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
OCR	7.56	7.67	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.25
90 day bill	7.88	7.98	8.09	8.10	7.90	7.90	7.90	7.90	7.90	7.20
10 year bond	5.89	6.08	6.22	6.20	6.30	6.30	6.40	6.10	5.90	6.00
International	Mar 07	Apr 07	21 May 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
US Fed funds	5.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75	5.00	5.25
US 3-mth	5.35	5.36	5.36	5.40	5.00	4.60	4.75	4.90	5.25	5.40
AU cash	6.25	6.25	6.25	6.25	6.25	6.50	6.50	6.50	6.50	6.50
AU 3-mth	6.52	6.38	6.36	6.40	6.40	6.70	6.70	6.70	6.70	6.80

## KEY RATES

	18 Apr	14 May	15 May	16 May	17 May	18 May
Official Cash Rate	7.50	7.75	7.75	7.75	7.75	7.75
30 day bank bill	7.89	8.00	8.00	8.02	8.02	8.00
90 day bank bill	8.01	8.08	8.10	8.10	8.11	8.09
NZGB 07/09	7.17	7.15	7.13	7.12	7.12	7.13
NZGB 11/11	6.85	6.78	6.79	6.77	6.78	6.79
NZGB 04/13	6.56	6.48	6.49	6.49	6.50	6.52
NZGB 12/17	6.23	6.08	6.11	6.13	6.14	6.19
1 year swap	8.16	8.20	8.21	8.20	8.20	8.21
2 year swap	8.07	8.03	8.05	8.03	8.03	8.04
5 year swap	7.80	7.69	7.69	7.68	7.67	7.68
RBNZ TWI	72.1	71.5	71.6	71.5	71.3	71.1
NZD/USD	0.7468	0.7372	0.7374	0.7375	0.7335	0.7292
NZD/AUD	0.8928	0.8853	0.8857	0.8860	0.8870	0.8869
NZD/JPY	88.62	88.61	88.78	88.73	88.63	88.47
NZD/GBP	0.3719	0.3716	0.3725	0.3715	0.3708	0.3693
NZD/EUR	0.5498	0.5442	0.5444	0.5425	0.5421	0.5406
AUD/USD	0.8365	0.8327	0.8326	0.8324	0.8269	0.8222
EUR/USD	1.3584	1.3546	1.3544	1.3595	1.3531	1.3489
USD/JPY	118.66	120.20	120.39	120.31	120.83	121.32
GBP/USD	2.0080	1.9837	1.9798	1.9853	1.9782	1.9744
Oil	63.14	62.55	62.55	63.16	62.57	64.83
Gold	688.65	669.25	669.20	672.85	664.35	658.05
Electricity Price Index	6.69	7.83	8.04	8.04	8.04	8.05

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